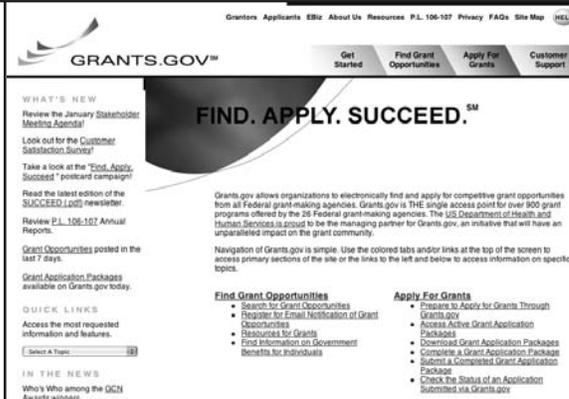


Grants Management in the 21st Century: Three Innovative Policy Responses

Financial Management Series



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 Professor of Government and Politics
 Department of Public and International Affairs
 George Mason University

FINANCIAL MANAGEMENT SERIES

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**The Business
of Government**

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F O R E W O R D

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On behalf of the IBM Center for The Business of Government, we are pleased to present this report, “Grants Management in the 21st Century: Three Innovative Policy Responses,” by Timothy J. Conlan. This is another report in which the IBM Center has supported research looking at government management in the 21st century.

Grants are one of the oldest and most widely used policy instruments of the federal government. More than 700 individual grant programs come in a wide variety of sizes, shapes, and forms—ranging from the largest, the \$162.5 billion Medicaid program, to 484 others funded at \$50 million or less. Grants are now receiving increased attention within the federal government. One example of this attention is the grants management “line of business” initiative, sponsored by the Office of Management and Budget, which is seeking to develop a government-wide solution to support end-to-end grants management activities, including access to grant opportunities, increased efficiency of application submission, improved decision making, and improved efficiency of reporting.

Professor Conlan explains how once the hallmark of cooperative federalism, the federal grant system has come under increased stress in recent years. In an effort to help move forward with efforts to modernize the system, he analyzes three recent reform initiatives: performance partnerships, Grants.gov, and extended waiver authority. He explores the potential of each to mitigate some of the challenges of grants management and design. Conlan’s analysis leads him to conclude that all three innovations show promise; there are no panaceas in grant design; genuine improvement requires time and investments; and further progress requires administrative, statutory, and systemic actions. He concludes by making a number of recommendations, including recommendations to improve Grants.gov, to deepen and enhance performance partnerships, to advance statutory initiatives, and to promote systemic reforms.

In view of large federal deficits, grants and other discretionary spending face increased demands for higher levels of performance in the years ahead. The future of the system will depend on improving the performance of federal aid programs—both individually and collectively—as well as mitigating the dilemmas of accountability, performance assessment, complexity, flexibility, and funding distribution. Conlan’s report provides a useful and thoughtful guide to the dilemmas and trade-offs for which no perfect solutions exist. We trust that this report will be both useful and informative to executives across the federal government.

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EXECUTIVE SUMMARY

Grants-in-aid are one of the oldest and most widely used policy instruments in the federal government's arsenal. Although grants have many advantages, they also pose challenges of administration and design. These challenges include a proclivity for program proliferation and administrative complexity; a tendency toward inefficient allocation of grant funds; and challenges of accountability, performance assessment, and recipient flexibility.

Taken individually, issues of accountability, performance assessment, complexity, flexibility, and funding distribution can be daunting. Yet, even more challenging are the interactions between them. Dealing effectively with one issue often aggravates another, creating a series of dilemmas and trade-offs for which no perfect solutions exist. These include:

- The dilemma of accountability vs. flexibility
- The dilemma of flexibility vs. performance assessment
- The dilemma of accountability vs. performance assessment
- The dilemma of accountability vs. coordination
- The dilemma of funding distribution

Three recent reform initiatives—performance partnerships, Grants.gov, and extended waiver authority—have shown potential to mitigate some, though not all, of these dilemmas. *Performance partnerships* are premised on the negotiation of clear goals and performance criteria, in exchange for which grantees can obtain considerable flexibility to combine affected programs and to structure their implementation in furtherance of these goals. The *Grants.gov* initiative seeks to provide greater flexibility by using

information technology to reduce the costs of information collection and ease the burdens of reporting requirements. *Extended waiver* or “*superwaiver*” authority is designed to give states the option to meld multiple federal programs from several agencies into an integrated, locally tailored package.

An analysis of these three initiatives generates four findings and four sets of recommendations. Study findings are: (1) all three innovations show promise; (2) there are no panaceas in grant design; (3) genuine improvements require time and investment of resources; and (4) further progress requires administrative, statutory, and systemic actions.

To move forward with modernizing the federal grant system, the report makes the following recommendations:

Recommendation 1: Make administrative improvements to Grants.gov.

The Grants.gov initiative deserves to be continued and expanded. Considerable progress has been made to date, warranting continued investment and additional resources. This includes placing more focus on the post-award process and additional technical assistance.

Recommendation 2: Deepen and enhance performance partnerships.

The performance partnership process between the Environmental Protection Agency and the states warrants continuation and greater depth of partnership. This can be accomplished with greater involvement by program and headquarters staff in the performance partnership process, greater state capacity building, and more focus on risk taking and experimentation.

Recommendation 3: Advance statutory initiatives.

Some improvements require changes in law as well

as administrative practice. This includes the expansion of existing approaches, such as performance partnerships, into new policy areas, as well as the enactment of extended waiver authority on a limited, demonstration basis. In addition, future grant statutes could be enhanced by fewer legislative earmarks, new support structures to promote improved grant design, and a new entity for intergovernmental research and consultation.

Recommendation 4: Promote systemic reforms.

The history of grants management and reform makes it clear that changes in the system must be viewed from a comprehensive, systemic perspective as well as on the basis of individual programs and grants. In addition to creating a follow-on entity to the Advisory Commission on Intergovernmental Relations and urging congressional restraint in earmarking, other systemic initiatives include creating a grants community of practice, the adoption of fewer categorical grants, modifications to the Office of Management and Budget's Program Assessment Rating Tool (PART) process, and greater intergovernmental deference.

Introduction: The Promise and Pitfalls of Federal Grants

Grants-in-aid are one of the oldest and most widely used policy instruments in the federal government's arsenal. Grants historically were considered to be the most legitimate tool for federal involvement in fields traditionally regarded as state and local responsibilities. Although the constitutional and philosophical considerations that once favored grants over more direct forms of federal involvement have diminished in power over time, those early choices created conditions that continue to support the use of grants-in-aid. Contemporary grants make use of established administrative infrastructures—both in Washington and at the state and local levels. They represent a familiar and flexible technology. And, because they can be delivered in functionally and geographically discrete packets, grants possess powerful political advantages for both recipients and congressional legislative sponsors.

At the same time, grants-in-aid pose challenges of administration and design. Such challenges include:

- A proclivity for program proliferation and administrative complexity
- Difficulties of balancing adequate accountability and performance assessment with the advantages of recipient discretion
- Tendencies toward inefficiency in the distribution of grant funds

The intensity of these challenges varies from one program to the next, and some problems are more characteristic of the grant system as a whole than of any particular program. Administrative complexity, for example, is greatly increased by the proliferation of hundreds of grant programs with distinctive eligi-

bility, application, reporting, and evaluation requirements. But the tensions spawned by these dilemmas have proven to be chronic features of the grant system over many years.

Over time, these dilemmas and difficulties have generated numerous—sometimes conflicting—grant reform initiatives. These efforts have included incremental reforms, such as the Office of Management and Budget (OMB) Circular A-85 and A-95 processes to improve grant program information and coordination in the 1970s,¹ and elements of the National Performance Review (NPR) initiatives and the Federal Financial Assistance Management Act (P.L. 106-107) in the 1990s. The Nixon and Reagan administrations and the Republican Congress in the mid-1990s also advanced more comprehensive legislative and structural reforms of the grant system, attempting to reduce the number of small categorical programs, consolidate related programs into broader, more flexible block grants, and rationalize intergovernmental roles in the federal system.

Too often, however, the accomplishments of both incremental and structural grant reform efforts have been disappointing. In large part, this is because the most fundamental challenges posed by grants involve difficult trade-offs between reformers' goals, such as the tension between federal accountability and recipient discretion. Incremental reform efforts, moreover, are prone to create new delays and veto points in addition to providing the intended aims of new input and points of view. Structural reforms, such as grant consolidation, have been shown to produce greater local flexibility but, at the same time, have often undermined congressional interest in continued funding. Moreover,

Rationales for Federal Grants-in-Aid

There are several reasons for the early use and lasting popularity of the federal grant tool. From a legal and historical perspective, grants-in-aid long were viewed as the most constitutionally permissible means of federal involvement in traditional spheres of state and local responsibility in the early Republic. The scope of the federal government's enumerated powers was one of the most important and contentious political issues in the early Republic. While this issue played out most dramatically in debates over the constitutionality of the Bank of the United States, issues such as the permissible scope of federal involvement in transportation projects and other forms of "internal improvements" were one of the chief causes of conflict between the early political parties.

Grants-in-aid provided a means of finessing this constitutional debate. Grants, first of land and later of cash, could be viewed as constitutionally permissible means of executing accepted federal powers, such as establishing post roads, disposing of and regulating the territories, or spending to promote the general welfare. Although the use of grants in this way remained controversial, the grant tool was clearly less invasive than direct federal administration. As the tool became more and more widely used, grants became a key feature of the shift from "dual federalism," with its sharply demarcated lines of authority between the national government and the states, and the 20th century development of broadly overlapping roles and "cooperative federalism."

Grants also enjoy support for economic reasons. They can, for example, provide an effective way to redress fiscal imbalances in the intergovernmental system. For most of our nation's history, the federal government has enjoyed significant resource advantages vis-à-vis states and localities. In addition, it has historically derived revenues from comparatively productive and efficient forms of taxation. This was particularly evident after enactment of the federal income tax in 1913.

Another economic argument on behalf of grants-in-aid involves the efficiency advantages that grants make possible. Conceptually, grants can allow a closer coincidence between the delivery of public goods and payment for them. In economic theory, public goods and services should be underproduced when those who pay for them do not capture all of the benefits, and they should be overproduced if those who benefit and control production can avoid paying all of the costs for them.² One solution to this problem is to provide interjurisdictional grants-in-aid designed to compensate for this fiscal mismatch. An example of this concept was provided by an influential U.S. Treasury Department study in the 1980s: "If 20 percent of the benefits of local police services provided by a city is realized by commuters and visitors to the city from throughout the state, a state matching grant paying 20 percent of the city's total outlays for those services would ensure an appropriate level of provision."³ Although the empirical evidence that most grants are actually adopted and implemented to serve this function is rather weak,⁴ the potential for efficiency gains with grants remains an important rationale for their use.

Finally, grants-in-aid can possess administrative advantages vis-à-vis direct service provision. In most domestic fields of public policy, state and local governments were active in some form before the federal government became involved. Thus, an administrative apparatus and service delivery infrastructure was often already in place when federal policies were adopted. In such situations, grants provide a mechanism for the federal government to build upon state and local efforts without establishing a duplicative administrative bureaucracy of its own.

Other administrative advantages can flow from such cooperative relationships. Shared responsibilities made possible by grants allow for greater specialization of intergovernmental responsibilities. In theory, each level of government can concentrate on those activities for which they are best suited. The federal government can specialize in knowledge-intensive activities, for example—such as health research and crime laboratories—while using grants to support service-intensive functions—such as public health services and law enforcement—at the state or local level. Such cooperative intergovernmental relationships can also enhance the quality of policy making by enabling broader jurisdictions to benefit from detailed, contextual knowledge possessed by those at the local level.⁵

successful grant consolidation efforts have often been followed quickly by the proliferation of new categorical programs.

This report will explore such challenges and dilemmas affecting the grants-in-aid system, as well as the promise and performance of recent initiatives designed to enhance the functioning of federal grants-in-aid. Particular attention will be devoted to three relatively recent reform initiatives and proposals: performance partnerships, e-grant initiatives, and the expanded use of waivers. The report will also seek to develop findings and recommendations useful to policy makers, including elements of best practices identified by practitioners in the system.

In addition to drawing upon a range of published and unpublished studies and statistics on the grant system, this report also draws upon an emerging public administration methodology: the “community of practice.”⁶ A talented and knowledgeable group of analysts, scholars, and practitioners from all levels of government were brought together in the Working Conference on Improving Grant Operations, sponsored by the IBM Center for The Business of Government and the National Academy of Public Administration on February 26, 2004 (for a list of participants, see Appendix II). In addition to general discussion on best practices and grant reform initiatives, participants were organized into subgroups on the design, operation, and assessment of grant programs, and they analyzed both problems and potential solutions through these crosscutting perspectives.

The next section of the report analyzes several of the design and administrative challenges posed by federal grants-in-aid. This is followed by an examination in more detail of the policy trade-offs and dilemmas that arise when solutions to one set of problems create subsequent difficulties. Then three recent and ongoing reform initiatives are explored, assessing their potential for redressing these dilemmas and challenges of federal aid design. This is followed by a section on the study’s principal findings, conclusions, and recommendations. Appendix I reviews the key design features of the grant tool.

Abbreviations and Acronyms

AFDC	Aid to Families with Dependent Children
CDBG	Community Development Block Grant
ECOS	Environmental Council of the States
EPA	Environmental Protection Agency
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
GRS	General Revenue Sharing
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
NCLB	No Child Left Behind
NEPPS	National Environmental Performance Partnership System
NPR	National Performance Review
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PPA	Performance Partnership Agreement
PPG	Performance Partnership Grant
TANF	Temporary Assistance for Needy Families

Design and Administrative Challenges of Federal Grants

This section examines several of the most difficult challenges posed by grant design and implementation. These include challenges of accountability, performance assessment, recipient flexibility, systemic complexity, and funding. Such problems are often extremely difficult in their own right—how to ensure the appropriate and effective use of grant funds; how to define and measure results in the context of third-party government; how to provide sufficient flexibility to maximize performance and attention to local needs; and so forth. But most challenging of all is that the common goals of good grant design are often in conflict. For example, the measures necessary for ensuring accountability and performance evaluation can limit the degree of recipient flexibility that is often essential for optimal performance and innovation. The nature of these individual challenges will be examined here, while the conflicts and trade-offs between them will be analyzed in the section that follows.

Challenge 1: Achieving Accountability in Federal Grants

Ensuring adequate accountability is one of the oldest and most widely recognized issues in federal grant implementation and design. The Oxford Dictionary of the English Language defines accountability as the “liability to give account of, and answer for, discharge of duties or conduct.” All grants have more or less specific objectives that they are designed to serve and for which recipients can be expected to answer. These objectives can be very broad, as in the case of general-purpose grants, or narrow and specific in the case of many categorical grants. But even with general-purpose aid, such as General Revenue Sharing in the 1970s and 1980s

Federal Grants Defined

Conceptually, grants are a conditional form of “gift” from the federal government (or other grantor) to a recipient government or grantee. They are typically designed to support or augment an existing service or activity that is already being carried out by the recipient, or to encourage the provision of new services or activities.

According to the Federal Grant and Cooperative Agreement Act of 1977, grants are considered to be the appropriate instrument for achieving federal objectives whenever “the principal purpose of the relationship is to transfer a thing of value to the state or local government or other recipient to carry out a public purpose of support or stimulation,” *provided* that there is not expected to be close and substantial involvement by the federal agency in carrying out said activity.⁷ Grants are distinguished in the law from procurement contracts, which are the instrument of choice when the principal purpose is to acquire property or services for the direct benefit or use of the federal government.⁸ They are also distinguished from, although they overlap more closely with, cooperative agreements, which are to be used when federal agencies participate actively with the state or local government in the activity or provision of services. Cooperative agreements are widely used in agricultural extension, for example, which is based on agreements between state land-grant colleges and the U.S. Department of Agriculture.

and various state programs assisting local governments today, the grantor has a fiduciary responsibility to its taxpayers to ensure that state or federal funds are not diverted to corrupt or illegal purposes, spent in racially or other discriminatory ways, or wasted on inappropriate or excessive expenditures.

Issues of accountability were present in the earliest forms of federal aid to state and local governments. The first grants had few requirements or restrictions, and funds were often wasted or poorly accounted for. Such problems stemmed from the same causes that continue to necessitate accountability provisions today. Most fundamentally, the interests of the federal government and of the recipient state and local governments are not identical. Then, as today, they diverge at key points. The federal government wishes to ensure full compliance with its objectives and, in the case of stimulative grants, to steer recipients toward new or (in its view) underserved activities. Grant recipients, in contrast, prefer to maximize their own discretion and employ local knowledge—or respond to local interests—in defining and prioritizing their needs.

These differences are made more complex because there is, in fact, no single federal, state, or local interest. Each level encompasses a complex of distinct, divergent, and common interests across its plane of governance. Federal elected officials often seek political recognition for their programmatic activities, as well as the biggest bang for limited federal bucks. Their temptation is to use relatively small grants to leverage larger state and local expenditures toward specific, sometimes very narrow, federal objectives. State and local elected officials often seek the opposite: to direct federal funds intended for one purpose toward another, more salient local objective, including in some cases the substitution of federal funds for state and local tax revenues. In contrast, civil servants at all levels of government often share a devotion to common professional goals and objectives that may compete with the wishes of elected officials and general administrators at all levels.

Such differences in interests are often reinforced by differing perceptions: distinctive worldviews reflecting the ideas, pressures, and circumstances that pervade policy making in different arenas and at different levels of government. Perceptual differences may be reinforced, as well, by information asymmetries in which the information available to policy makers at different levels of government varies with their closeness to the situation and the richness of information available to them. All in all, such differences in interests, influences, information, and perceptions contribute to what orga-

The Four Challenges

- Challenge 1:** Achieving Accountability in Federal Grants
- Challenge 2:** Assessing Performance
- Challenge 3:** Providing Adequate Grantee Flexibility
- Challenge 4:** Overcoming Complexity

nizational theorists and economists have called the “principal-agent” problem. One important consequence is grantee behavior that differs, often markedly, from grantor expectations and a consequent interest by grantors in more and more elaborate accountability provisions.

This dynamic led to the gradual adoption of more detailed devices to enhance accountability in early grants-in-aid, and it continues to motivate accountability provisions today.⁹ The first federal aid program to require submission of a state plan and minimum performance standards was the Weeks Act in 1911, in support of cooperative forestry programs. By 1916, when the first major program of federal highway grants was established, the federal requirements included state matching payments, planning and administrative standards, and administration of the program by a “single state agency,” employing professionally trained civil engineers. This last provision required that certain states amend their constitutions in order to comply.

Such federal requirements and restrictions were typically more complex and intrusive in new areas of activity where the federal government sought to stimulate state or local attention, and more deferential in fields such as elementary and secondary education, where the federal role was initially viewed as supportive rather than stimulative. Over time, as the number of grants with divergent requirements grew larger and as the accountability provisions grew more complex, OMB (and its predecessor, the Bureau of the Budget) issued circulars and directives to federal agencies in an effort to standardize federal accountability requirements. Today, the major grant circulars include circulars A-87: Cost Principles for State, Local, and Indian Tribal Governments; A-102:

OMB Grant Circulars

A-87: Cost Principles for State, Local, and Indian Tribal Governments

Circular A-87 establishes generally applicable principles and standards for determining costs allowed under federal grants, cost reimbursement contracts, and cooperative agreements with state and local governments and federally recognized Indian tribal governments.

A-102: Grants and Cooperative Agreements with State and Local Government

Circular A-102 establishes consistency and uniformity among federal agencies in the management of grants and cooperative agreements with state, local, and federally recognized Indian tribal governments. It establishes common forms or procedures involving aspects of the application, financial management, reporting, procurement, and closeout processes.

A-133: Audits of States, Local Governments, and Non-Profit Organizations

Circular A-133 sets forth uniform standards for auditing state and local governments and non-profit organizations expending federal grants and awards.

Grants and Cooperative Agreements with State and Local Government; and A-133: Audits of States, Local Governments, and Non-Profit Organizations.

Key accountability issues: Accountability involves several dimensions, including legal, financial, and performance issues. These can be thought of in terms of a continuum of overlapping concepts, with the standards and measurement of accountability becoming more subtle and complex as one moves from legal to performance. Performance accountability is sufficiently complex that it merits separate treatment in the following section.

The first issue of accountability involves assurance that grant funds are spent legally. This means in particular that funds are spent on statutory purposes—on those objectives authorized by law. For many project categorical grants, authorized activities may be very narrowly defined. The Community Technology Centers program administered by the Department of Education, for example, allows

spending only for the creation or expansion of technology training and access facilities in economically distressed areas—and this only if the proposed project is selected by the Department of Education.¹⁰ Programs of broad-based aid, by contrast, can authorize spending on an extensive range of goods and services. The Community Development Block Grant (CDBG) program, for example, is intended to promote “viable urban communities” and allows spending on such diverse activities as acquisition of real property; relocation; clearance and demolition; rehabilitation of residential and nonresidential structures; provision of public facilities and improvements, such as water and sewer facilities, streets, and neighborhood centers; and various public services.¹¹ Even broad-based aid, such as CDBG, is subject to application, reporting, record keeping, and audit requirements, however, as well as cross-cutting legal requirements that apply to all or most federal grant programs, including nondiscrimination, drug-free workplace, prevailing wage, and environmental impact requirements.

Financial accountability involves the more complex task of assuring that federal funds are spent appropriately as well as legally. This means that grant funds are not wasted or used inefficiently, as when excessive amounts are paid for particular goods or services. Financial accountability is easiest to maintain when funds are provided in distinct, single activity grants that are programmatically distinct from state and local activities. Such programs create their own problems of complexity and coordination, but the lines of accountability are relatively direct and straightforward. In contrast, accountability becomes more difficult when federal, state, and local funding streams are intermingled. This is particularly true when funds are provided in broad-based grants that supplement existing state and local services and activities.

Further complicating financial accountability is the fact that many grants supplement recipients’ existing activities while seeking to stimulate new approaches and services. Grant funds can become intermingled with recipients’ own source funds in ways that can greatly complicate federal accountability. The fungibility of revenues complicates matters further, as grant monies may simply replace part of what recipients would have spent on their own. Moreover, many grants are received by state

or local governments and then passed on to lower levels of government or nongovernmental organizations. Such mixed purposes and complex funding combinations further complicate the task of assuring accountability in the use of federal funds. As Paul Posner observed at the Working Conference: “The fiscal melting pot can eviscerate the best efforts at fiscal accountability.”

Finally, for grant recipients, accountability is a double-edged concept. State and local recipients of federal grants owe accountability to the federal government as grantor, but they also owe political accountability for their actions to their own electorates. Even where both sets of principals seek efficient and effective outcomes, they still may pull state and local decision makers in very different directions, as when federal highway grants require lower speed limits than western state residents find practical. In addition, accountability procedures at different levels of government may conflict, requiring different types of documentation or contracting procedures, for example.

Given this complex environment, the most common means of assuring accountability have limitations and drawbacks. Tight restrictions on program purposes in narrowly specified categorical grants can create administrative burdens, obstruct good management practices and program coordination, and restrict the recipient’s capacity for innovation and effective service delivery. Similarly, overly detailed or demanding application, planning, reporting, and auditing requirements can create administrative dysfunctions among recipients and lead to goal displacement. These problems were evident in the early implementation of Title I grants for compensatory education, when federal accountability provisions led local schools to establish “pull out” procedures to assure that federal funds were spent solely on educationally disadvantaged students. To assure compliance with federal rules, disadvantaged students were taken out of regular classrooms for intensified instruction in basic skills. In the process, students were stigmatized and deprived of the material being covered in their regular classes. Finally, enforcing accountability can be difficult even in the face of recipient abuses, especially if funding reductions and penalties are viewed as harming the intended beneficiaries.

Challenge 2: Assessing Performance

At the broadest level, performance assessment reflects a desire—and in contemporary governance increasingly the need—to demonstrate results for public sector activities. What value does society receive for citizens’ hard-earned tax dollars? What objective difference does a federal program make in the lives of citizens? Are there more efficient and effective ways to accomplish the same ends? Performance assessment attempts to address such questions by systematically defining the goals and objectives of the program in question, carefully measuring progress made toward achieving those objectives, thoroughly evaluating the outcomes and effectiveness of the program or policy, and assessing the relative efficiency of the program compared to alternative means of securing the same ends.

The focus on assessing and enhancing the performance of federal grant programs—and federal program activities generally—has grown in recent years. An uneven but secular decline in citizen confidence in government, coupled with a general trend toward greater stringency in federal budgets, has increased the demand for higher standards of performance in federal programs. This demand has been expressed in many ways, including changes in the political environment of government, cultural shifts in the climate of expectations within government agencies, and major policy initiatives. Recent initiatives promoting greater attention to program performance include the Government Performance and Results Act (P.L. 103-62), or GPRA; aspects of President Clinton’s NPR initiative; and the George W. Bush administration’s President’s Management Agenda (PMA) and Program Assessment Rating Tool (PART) process. At the same time, performance assessment has also been encouraged on the “supply side” by enhancement of the tools and techniques of performance-based management. These techniques are part of a broader trend toward performance-based governance that is present at all levels of government, in directly administered activities as well as grant programs and other forms of third-party governance.

The mechanisms of performance assessment in federal grant programs are varied and growing in sophistication. They include the placement of grants within the context of broader strategic planning initiatives; the identification and collection of spe-

A Brief History of Grants

Grants have long been the tool of choice in inter-governmental relationships. Land grants to the states began with Ohio's accession to statehood in 1803. Under the terms laid out in the Northwest Ordinance of 1785, the state received a grant of one section per township to support the establishment of public schools.¹² Similar and increasingly generous land grants were provided to subsequent new states admitted into the Union. Congressional enactments during the mid-19th century provided further land grants to promote railroad construction and, through the Morrill Act of 1862, higher education.

As the public domain available for land grants diminished in the late 19th century, the federal government began giving cash grants to states to advance federal policy goals. The Hatch Act of 1887, which provided support for agricultural research, was the first continuing program of federal cash grants to the states.¹³ It was followed in the early 20th century by grant programs to support forestation (1911), agricultural extension services (1914), highways (1916), and vocational training (1918).

By 1930, there were 15 operating federal aid programs, with federal highway grants providing over half of the approximately \$125 million in total federal aid.¹⁴ Such programs were greatly supplemented during the New Deal, which saw a dramatic increase in the numbers, substantive scope, and budgetary size of federal grants to states and, for the first time, directly to local governments. By 1939, there were approximately 30 federal grant programs providing almost \$3 billion in federal aid—a sixteen-fold increase in spending in just 10 years.¹⁵ Health, welfare, and employment services were now the largest aid category, followed by transportation and agriculture.

This New Deal expansion of federal aid ushered in the modern system of cooperative federalism. Shared activities and substantial levels of federal aid became the norm across many domestic policy fields. Subsequent dramatic expansions in federal grants-in-aid occurred in the 1960s and 1970s. Following periods of modest retrenchment in the early 1980s and the mid-1990s, the number of federal programs and levels of federal aid began to grow again in the late 1990s.¹⁶ In 2004, federal aid to state and local governments totaled approximately \$418 billion, provided through over 700 separate grant-in-aid programs.¹⁷ See Table 1 (page 15), Table 2 (page 16), and Figure 1 (page 17).

cific and detailed performance and outcome data; the use of more careful and sophisticated program evaluation techniques, including random assignment evaluation studies; and broad-based, negotiated performance partnerships. Grants, like other federal programs, are also increasingly subject to expanding administrative efforts at performance-based budgeting, as evident in OMB's PART process.

Effective performance assessment often poses a variety of problems, however, some of which are general in nature and others that are especially acute in grant programs.¹⁸

Data and measurement issues: One common set of problems involves data and measurement limitations. Certain grant outcomes are inherently difficult to measure, thus complicating efforts to track performance. This is especially true of rare but catastrophic events, such as major terrorist attacks. While it is possible to measure progress toward intermediate goals in grants promoting homeland security, for example, defining success merely as the absence of a major incident is too blunt an indicator against which to measure progress over time. By this measure, homeland security measures that were shown to be inadequate on September 11, 2001, would have been considered successful on September 10. Even where performance can be more effectively defined, the absence of adequate data to measure and evaluate performance is often a major difficulty. For example, data to measure the effectiveness of regional cooperation in the use of federal homeland security grants is often unavailable or inadequate based on existing reporting and data sources.¹⁹

Complex causation: In cases where considerable data and measures are available, assessing grant performance can still be clouded by the complex character of the problem or issue at hand. For example, implementation of the Temporary Assistance for Needy Families (TANF) program in the late 1990s corresponded with dramatic declines in welfare caseloads, a decline in the overall poverty rate, and increased employment levels among low-income populations. The degree to which these changes were attributable to welfare reform rather than to other attendant factors, such as strong economic performance and changing attitudes toward welfare, is difficult to assess. An improved understanding

of the independent effects of program and policy changes, economic factors, and cultural effects often requires costly, carefully designed, long-term evaluation studies.

Intergovernmental complexity: In the case of grants-in-aid, issues of complex causation are further complicated by the complexities of intergovernmental relations. At the state and local levels, federal grant funds are often commingled with state and/or local funds. In addition, state and local administrative structures and assignments of responsibility often vary widely from state to state. Beyond that, many grants are further distributed to nonprofit organizations for actual service delivery. The end result is to create additional difficulties in ascertaining performance of federal funds and programs. Indeed, one of the thorniest problems in implementing GPRA lies in determining federal agency accountability for program performance in grant programs when grants constitute only a fraction of total state/local spending in the area. Elementary and secondary education is a good example. Federal grant funds make up less than 10 percent of total state/local spending on education. In this complex environment, federal efforts to measure performance and establish accountability can become exceedingly complex and intrusive, as evident in the controversies over implementing the No Child Left Behind (NCLB) law.

Multiple program goals: It can be particularly difficult to measure performance toward clearly specified goals when the federal statute or program is broadly structured to include multiple goals and objectives. This is a classic problem with evaluating the performance of federal block grants. By their very nature, block grants are designed to give recipients considerable flexibility in choosing among allowable activities, and their underlying statutes often encompass multiple and even conflicting goals. For example, under the broad umbrella of establishing and maintaining “viable urban communities,” the CDBG program encompasses a range of objectives that can often work at cross purposes, such as “the elimination of slums and blight,” “the conservation and expansion of the nation’s housing stock,” “the restoration and preservation of properties of special value,” and “the conservation of the nation’s scarce energy resources.”²⁰

Goal displacement: Another classic pitfall in performance measurement involves goal displacement.

Unless a performance measure precisely captures the intended policy goal or objective, it can create incentives for achieving the measured activity rather than the underlying policy goal. In employment and training programs, for example, poorly specified performance measures have historically produced “creaming” effects: that is, a focus on the easily employed rather than the neediest clients. Faced with requirements to maximize placement of unemployed clients in private sector positions, employment counselors may be structurally encouraged to focus their efforts on the most qualified clients, who are most apt to find good-paying jobs on their own, rather than those who are most in need of training and assistance. Similarly in education, a common complaint in performance-driven assessments is that they encourage “teaching to the test” rather than promoting the broad range of skills needed by an educated citizenry and an advanced and rapidly changing economy.

A bias toward centralization: A final problem related to performance assessment in the grant system involves a common and perhaps inherent bias toward centralization. Grants have traditionally been cooperative in nature, involving a blend of grantor and grantee goals. But performance assessment tends to encourage a “one best way” mentality that promotes program centralization. It can provide a vehicle for unilateral behavior by donors and tends to alter the balance of power within the grant relationship. The NCLB education program is a good example of this process, wherein the federal government has sought to use relatively modest amounts of funding in concert with performance-assessment processes to restructure elementary and secondary education.

Challenge 3: Providing Adequate Grantee Flexibility

Recipient flexibility is closely tied to issues of accountability and performance. Grant recipients often possess detailed and uniquely textured local knowledge and administrative experience that is critical to the effective accomplishment of the task being supported by the grant. Overly restrictive rules and grant conditions can therefore be counterproductive to successful implementation and can obstruct innovation and experimentation. On the other hand, excessive—and even adequate—flex-

ibility can result in the distortion of federal program objectives and the substitution of federal funds for state and local resources.

Efforts to increase the scope of recipient flexibility in the use of federal funds, while providing safeguards against misuse, have long been a focus of federal grant reform efforts. Block grants have been the most commonly used remedy. As discussed earlier, block grants permit recipients to choose from a broad range of eligible activities, selecting the mix that best fits state or local needs. At the same time, block grants have typically generated controversy over their performance, funding distribution, and long-term financing. Block grants tend to rate very low in OMB's PART process, for example. They also have been the focal point of regional and state/local battles over funding distribution. And experience suggests that funding for block grants grows more slowly than for a comparable collection of categorical programs, each supported by well-organized clientele and provider groups. Finally, block grants are not well suited for all fields or government activities. According to the Advisory Commission on Intergovernmental Relations, they are best suited to fields in which a cluster of functionally related programs already exists, where the function in question has traditionally been within the state/local sphere of activities, where federal and state governments share similar goals, and where little stimulation or federally induced innovation is expected.²¹ Accordingly, the quest continues for policy instruments that can deliver greater flexibility with fewer limitations, which is the promise of performance partnerships and waivers examined later in this report.

Challenge 4: Overcoming Complexity

Most grant designers, administrators, and recipients bring a narrowly focused programmatic perspective to their task. Issues of grant design are typically considered on a specific, case-by-case basis. Yet individual grants, each of which has unique design elements and requirements, form part of a complex system of more than 700 individual programs that overlap and intersect with each other in confusing and complex ways (see Table 1). Consequently, positive attributes that can enhance accountability, performance, and recipient discretion in individual

Table 1: Summary of the Number of Grant Programs to State and Local Governments, 2003 (estimated obligations in millions of dollars)

Department or Agency	Number of Programs	Obligations
Agriculture	68	21,144
Commerce	40	866
Defense	4	66
Education	124	39,166
Energy	4	287
Health and Human Services	169	229,107
Homeland Security	32	6,784
Housing and Urban Development	31	28,918
Interior	66	2,550
Justice	60	4,166
Labor	22	8,809
Transportation	20	36,753
Treasury	1	10
Veterans Affairs	6	433
Environmental Protection Agency	44	3,823
General Services Administration	1	650
Social Security Administration	2	30
Appalachian Regional Commission	5	102
Corporation for National and Community Service	6	320
Equal Employment Opportunity Commission	1	30
Denali Commission	1	24
National Foundation on the Arts and the Humanities	9	280
Total	716	384,318

Note: Excludes grants with no reported obligations.

Source: Office of Management and Budget, "The Number of Federal Grant Programs to State and Local Governments: 1980–2003" (unpublished data, Budget Analysis and Systems Division, Office of Management and Budget, February 2004); and Catalog of Federal Domestic Assistance (CFDA) (October 2003).

programs may become counterproductive and dysfunctional in the aggregate.

Ameliorating the problems of complexity in the grant system has been a focus of administrative and legislative reform initiatives for many years. Structural reforms such as block grants attempt to reduce complexity by consolidating numerous categorical grants into broader, more flexible programs. At times, they have had substantial success in doing so. In Ronald Reagan's first term, 77 categorical programs were consolidated into just nine block grants. This, along with the elimination of additional programs and the creation of a new job training block grant in 1982, lowered the total number of federal aid programs from 434 in 1980 to just 303 in 1982. But this reduction proved to be short-lived. As Table 2 shows, by the end of Reagan's second term in 1988, the number of federal grant programs had returned almost to the 1980 level, with 415 separate programs. During the George H. W. Bush administration, grant numbers continued to climb to a total of 539 by 1992. Although another round of grant consolidations and program eliminations in the 104th Congress reduced the number of federal grant programs slightly in the mid-1990s, the effects were again short-lived.

Given the limitations of grant consolidation, an alternative approach to reducing complexity in the grant system is through incremental and administrative means. Standardizing grants management rules through OMB circulars is one means of achieving incremental reform. Legislative approaches, such as the Single Audit Act and the Federal Financial Assistance Management Improvement Act of 1999, have also made incremental improvements in the system. E-grant reforms, which grew partly as a response to this act, are a recent manifestation of attempts to simplify grant application, administration, and reporting requirements, which will be examined in the section "Addressing the Dilemmas of Federal Aid: Three Innovations in Grant Design and Management."

Table 2: Trends in Federal Grant Programs to State and Local Governments

Fiscal Year	Number of Funded Programs	Federal Grants in Billions of Dollars	Federal Grants in Billions of Constant Dollars*
1980	434	91.4	192.6
1981	367	94.7	179.4
1982	303	88.1	154.7
1983	320	92.4	154.5
1984	330	97.5	155.9
1985	335	105.8	163.1
1986	349	112.3	167.6
1987	381	108.4	155.4
1988	415	115.3	159.4
1989	434	121.9	161.9
1990	463	135.3	172.1
1991	513	154.5	188.6
1992	539	178.1	211.4
1993	573	193.6	223.9
1994	593	210.6	238.1
1995	608	225.0	247.9
1996	570	227.8	245.5
1997	583	234.2	247.7
1998	591	246.1	257.3
1999	630	267.1	274.7
2000	653	284.7	284.7
2001	665	317.2	309.5
2002	NA	351.6	337.4
2003	716	387.3	363.0

NA: A separate count of programs was not available for 2002.

*Constant dollars as of 2000.

Source: Office of Management and Budget, "The Number of Federal Grant Programs to State and Local Governments: 1980–2003" (unpublished data, Budget Analysis and Systems Division, Office of Management and Budget, February 2004); and Catalog of Federal Domestic Assistance (CFDA) (October 2003); and Budget of the United States.

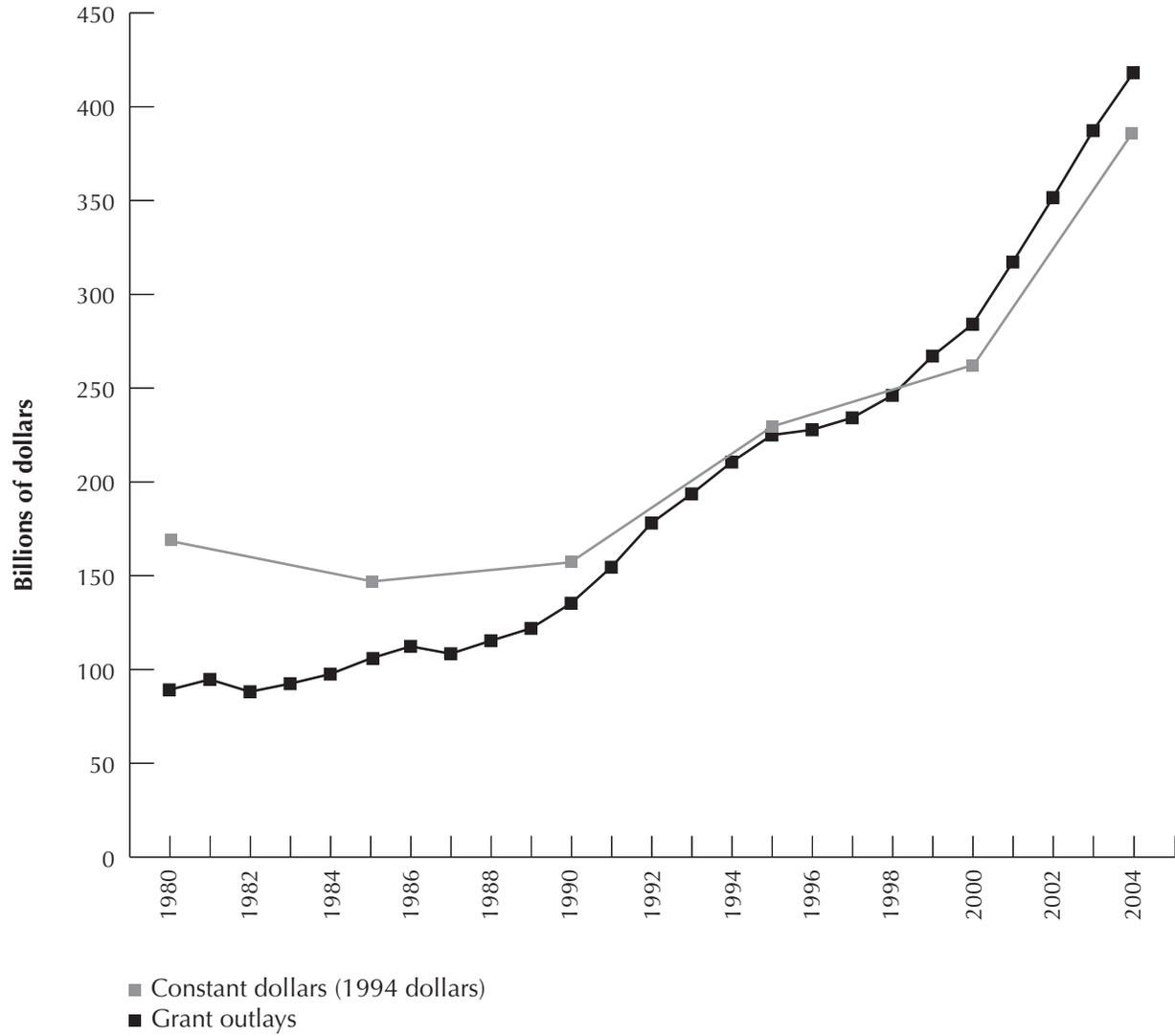
Figure 1: Federal Grants to State and Local Governments, 1980–2004

Table 3: The 20 Largest Grant Programs to State and Local Governments, 2003
(estimated obligations in billions of dollars)

Agency/Program	Obligations	Percent of total
1. HHS: Medicaid*	162.5	42.3%
2. Transportation: Highway Planning and Construction	24.4	6.4%
3. HHS: Temporary Assistance for Needy Families*	17.3	4.5%
4. HUD: Section 8 Housing Choice Vouchers	12.9	3.3%
5. Education: Title I Grants to Local Educational Agencies*	10.6	2.8%
6. Education: Special Education—Grants to States	8.9	2.3%
7. Agriculture: National School Lunch Program	6.9	1.8%
8. HHS: Head Start	6.7	1.8%
9. HHS: State Children's Health Insurance Program*	5.4	1.4%
10. HHS: Foster Care—Title IV-E	4.9	1.3%
11. Agriculture: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	4.3	1.1%
12. HHS: Child Support Enforcement	4.2	1.1%
13. Transportation: Federal Transit Capital Investment Grants	3.7	1.0%
14. HUD: Public and Indian Housing	3.6	1.0%
15. Transportation: Federal Transit Formula Grants	3.4	0.9%
16. Transportation: Airport Improvement Grants	3.4	0.9%
17. HUD: Public Housing Capital Fund	3.1	0.8%
18. HUD: Community Development Block Grants/Entitlement Grants	3.0	0.8%
19. Education: Improving Teacher Quality State Grants	2.8	0.7%
20. HHS: Child Care Mandatory and Matching Funds of the Child Care and Development Fund	2.7	0.7%
Subtotal, 20 largest programs	294.7	76.7%
Remaining 696 programs: Programs of more than \$50 million but not in the top 20 (212 programs)	83.1	21.6%
Programs of \$50 million or less (484 programs)	6.5	1.7%
Subtotal, remaining 696 programs	89.6	23.3%
Total, 716 programs	384.3	100.0%

Notes: HHS indicates the Department of Health and Human Services; HUD indicates the Department of Housing and Urban Development.

* indicates estimates are based on the *FY 2004 Budget Appendix*.

Source: Office of Management and Budget, "The Number of Federal Grant Programs to State and Local Governments: 1980–2003" (unpublished data, *Budget Analysis and Systems Division, Office of Management and Budget, February 2004*); and Catalog of Federal Domestic Assistance (CFDA) (October 2003).

Policy and Management Dilemmas in Grants-in-Aid

Taken individually, issues of accountability, performance assessment, complexity, flexibility, and funding distribution can be daunting. Yet, even more challenging are the interactions between them. Dealing effectively with one issue often aggravates another, creating a series of dilemmas and trade-offs for which no perfect solutions exist.

Dilemma 1: Accountability vs. Flexibility

Conflicts between accountability and flexibility are among the most obvious and long recognized trade-offs in grant design and administration.²² All forms of regulation, reporting, and programmatic restraint come at some potential cost. They divert a portion of grantor and recipient resources away from the principal objectives of the grant into compliance activities, and they may preclude behaviors that are best or uniquely suited to local circumstances.

Accountability provisions arise ultimately from a lack of trust. Grantors are understandably concerned that recipients will redirect funds intended for one set of purposes to unintended or unacceptable private or local purposes. Confidence that such misuse would not occur could obviate the need for many accountability restrictions. In the grant system, as in other social institutions, trust enables all parties to work more effectively, with fewer formal constraints.

Professionalization is one of the oldest and most widely used techniques for solving this dilemma and developing trust across complex organizations. Instilling and adhering to common professional norms, values, and techniques can overcome dif-

ferences of position, agency, and interest. Common professional ties build trust in grant programs by ensuring that recipients want to do the same things grantors wish them to do, and do them in the same way that the grantor would in the context of local circumstances.²³

Yet, professionalization often leads to its own dysfunctions in the grant system, raising new dilemmas even where it alleviates old ones. In particular, professionalization can reify the stovepipe structure of intergovernmental programs. Professionals, dealing with their specialized counterparts at other levels of government, are prone to ignore or discount the legitimate concerns of other actors in the system. The resulting system of “picket fence federalism” thus magnifies problems of coordination and management complexity. In addition, professionalization can reduce the responsiveness of local civil servants to their own elected officials, thus weakening horizontal accountability to the electorate in favor of vertical accountability to the grantor.

Dilemma 2: Flexibility vs. Performance Assessment

A related trade-off occurs between flexibility and performance assessment. Effective performance assessment requires standardized and generally detailed information from each grant recipient on the use of funds, on recipient and program clientele characteristics, and—most problematically—on program outcomes.²⁴ Such data collection requirements, particularly the need for identical, detailed data from each recipient, impose both direct and opportunity costs on grant recipients—costs that

The Five Dilemmas

- Dilemma 1:** Accountability vs. Flexibility
- Dilemma 2:** Flexibility vs. Performance Assessment
- Dilemma 3:** Accountability vs. Performance Assessment
- Dilemma 4:** Accountability vs. Coordination
- Dilemma 5:** Distributional Issues

can significantly restrict flexibility and effectiveness. Because government structures, laws, processes, and norms of behavior often vary widely from one state and locality to the next—and because such variations are reinforced by often widely differing social and economic circumstances—the application of uniform requirements and data collection demands can often prove ineffective or counterproductive.

Perhaps even more important in the long run, the rigid application of performance-measurement processes can undermine program adaptation and learning that is critical to the long-term improvement of program performance. In grants as in other areas of endeavor, the freedom to succeed implies the freedom to fail. Without the possibility of experimentation and failure, the opportunity to learn from mistakes is precluded as well. If done correctly, however, performance measurement can assist with program learning.

Dilemma 3: Accountability vs. Performance Assessment

Potential conflicts can also arise between accountability and performance assessment. One might assume these two goals would go hand in hand, and they frequently do. Both accountability and assessment share a common need for the collection of specific and often detailed information at the state and local levels, allowing the federal government to assess the appropriateness, effectiveness, and efficiency of grant-sponsored activities and spending. But the two goals can be in conflict, as well.

Accountability measures focus on the here and now. They are designed to prevent the misuse or unanticipated use of grant funds, under threat of fiscal and legal sanctions, or to ensure that nationally encouraged goals are promoted. This focus on the straight and narrow can run counter to the learning environment sought by advocates of performance assessment. Their goal is to use assessment as a technique for promoting continuous program improvement. As Professor Sallyanne Payton of the University of Michigan Law School observed: “Accountability and performance ... are not the same thing.... In the laboratory of democracy, somebody has to be the scientist. One of the problems in the grant area is that you have to develop a knowledge base that can then be used to lift people up.”²⁵

Dilemma 4: Accountability vs. Coordination

Strict accountability and performance-assessment measures also have implications for program coordination and system complexity. Fiscal accountability and performance assessment are far easier to maintain and measure when programs are well defined and provide distinct funding streams separate from local source funding and other grant programs. As Patricia Stevens of Fairfax County, Virginia, explained at the Working Conference:

The point of reporting is accountability. The things that work in a single agency with a single grant don't work as well when you work across agencies and programs in collaborative efforts. When we blend funds from local agencies, the whole mechanism for reporting and accounting in a single agency doesn't work. For example, a Safe Schools initiative in Fairfax County ... merged three different programs. In reporting, we had to separate them out again, right down to the penny.²⁶

Yet such criteria lead to the proliferation of narrow categorical programs that make program coordination and effective implementation so difficult. Coordination of hundreds of separate grant programs—each with separate applications, administrative processes, reporting requirements, and funding restrictions—has been a continuing challenge and cause of grant reform initiatives for many years. The

implications for implementation are also troublesome, since one of the most widely accepted rules of effective program implementation is to “keep it simple.”

Dilemma 5: Distributional Issues

The fair and effective distribution of federal grant funds is another issue beset by serious policy dilemmas and trade-offs. Some trade-offs are inherent to the grant distribution process itself; others intersect with the challenges outlined earlier.

Needs vs. capacity: One of the chronic ironies of the grant system is that the neediest recipients are often at a serious disadvantage in obtaining federal grants-in-aid. This is particularly true of discretionary grants, which are the most likely to be distributed directly to local units of government. And it is precisely at the local level where disparities in resources and institutional capacity are the greatest.

To be sure, the disjunction between need for and success in obtaining grant funds is not the product of deliberate policy. On the contrary, formula and guidance factors in many grants consciously attempt to direct funds to where needs are most urgent. Rather, the dilemma is driven largely by variations in institutional capacity. The poorest jurisdictions, especially in rural areas, typically are poorly staffed and equipped. They are least likely to know what grant funds are available, how to apply for and write grant proposals successfully, how to implement the grant effectively if it is awarded, and so forth. As one conference participant put it: “The [communities] with greatest needs have by far the least capacity. Communities with less than 15,000 aren’t going to be able to hire a consultant or form an office to fill out applications.”

Predictability vs. innovation: Excellent performance in grant programs often requires two contradictory elements. On the one hand, performance benefits from predictability. A stable and predictable amount of funding enables recipients to plan, organize processes, budget, and hire effectively, laying the groundwork for effective implementation. As Frank Shafroth of Arlington County, Virginia, observed at the grants conference: “When you develop a grant program, you have to think about whether there will be a long-term commitment, which would make

it worthwhile to build capacity, hire expertise to address these grant applications, etc.” A lack of funding predictability undermines effective planning and preparation, leading to last-minute hiring, purchases, and processes. In grant programs, such predictability is generally best provided by formula grants, where stable and often statutory formulas provide a relative degree of certainty in future funding.

Providing such predictability in federal grants to local recipients can be problematic, however, for several reasons. First, formula grants typically deliver funds to states rather than localities, in part because formula grants to localities can be impractical in many instances. There are almost 39,000 general-purpose local governments in the United States. As was evident in the case of General Revenue Sharing in the 1970s and 1980s, the funds distributed by formula to any one local jurisdiction—especially smaller rural ones—risk becoming inconsequential unless overall program funding is very large. Even then, data limitations and differences in state/local governing systems make it extremely difficult to design an effective formula for direct federal/local grants.

Even if formula design issues can be effectively dealt with, formula funding can run counter to other goals in the design of grant programs—most notably the desire to stimulate new services or activities at state and local levels. Stimulative grants are typically categorical in nature. Rather than predictable formulas that deliver funds to all jurisdictions, whether innovative or not, they depend upon bureaucratic discretion and the selection of the most promising grantee proposals. This process can promote innovative new approaches and experimentation, but it is inherently unpredictable for any particular grantee.

Performance vs. politics. The distribution of federal grant funds is an inherently political act. This is especially evident in the legislative politics of formula design, where members of Congress often work vigorously to design formulas that will allocate maximum funds to their own constituencies.²⁷ It is equally evident in the dramatic increase in congressional earmarks as a means of allocating grant and other funds to members’ districts. In the Department of Transportation, for example, the number of earmarks in highway legislation increased dramatically

between 1991 and 1998, reaching 1,850 in the so-called TEA-21 Act of 1998.²⁸ Estimates for the most recent highway and transportation bill exceed 6,000.²⁹

In both cases, the distribution of funds would typically be quite different if left to agency professionals or local recipients. These differences in allocations and allocation methods reflect distinctive criteria for selection. Agency professionals, for example, are more likely to value good performance with prior grants, whereas members of Congress place a premium on geographic (and congressional district) equity. But the differences also reflect distinctive incentive structures. Most members of Congress, in particular, feel compelled to “bring home the bacon,” which in the case of grants means earmarked funding or geographically tailored categorical and formula grants.

The tension between politics and performance in the distribution of federal grants also reflects political interest in blame avoidance as well as the positive appeal of credit claiming. Improved performance and the development of best practices in the operation of federal grants can be enhanced by a willingness to experiment and take risks in search of innovations. Yet members of Congress, and most managers in federal agencies as well, are risk averse. Experiments gone sour promise negative headlines in tomorrow’s newspapers, and elected officials and political appointees cannot help but be concerned about the consequences of negative publicity.

The Political Nature of Federal Grants

Federal grants have always enjoyed strong political appeal above and beyond any theoretical rationale in their favor. By building on state and local administrative capacity, federal grants have helped to limit the growth of federal bureaucracy. As Martha Derthick has put it: “Congress has habitually chosen the medium of grants not so much because it loves the states more as because it loves the federal bureaucracy less. Congress loves action ... but it hates bureaucracy and taxes, which are the instruments of action.”³⁰

Equally important, grants can serve the political imperative felt by many members of Congress to “bring home the bacon.” Specifically, the geographic distribution of grants to state and local governments can be harnessed to the territorial structure of congressional districts. As David Mayhew has argued: “The programmatic mainstay of congressmen is the categorical grant [because] ... it supplies goods in small manipulable packets.” This same logic of political geography drives congressional proclivities toward earmarks, as well.³¹

In addition, grants are programmatically as well as territorially divisible. They can be structured to address narrow, programmatically distinct purposes that match specific constituency needs and congressional committee jurisdictions. This appeals to the political needs of both organized interest groups and members of Congress, and it is one of the primary causes of grant proliferation. This dynamic is an important reason why there are more than 700 separately authorized grant programs in existence today.

Addressing the Dilemmas of Federal Aid: Three Innovations in Grant Design and Management

It is exceedingly difficult to resolve the dilemmas of grant design and operation explored in the previous section because they involve trade-offs between what are often equally worthwhile goals in the grant system. Consequently, many reform efforts in the past have foundered on these dilemmas, emphasizing one goal to the detriment of others. But three recent reform initiatives—performance partnerships, Grants.gov, and so-called “superwaivers”—have all shown some potential to resolve some, though not all, of these dilemmas. They are consequently the subject of this section, which seeks to evaluate the practical potential of each initiative for enhancing the performance of the federal grants-in-aid system.

Performance partnerships represent a novel effort to combine performance assessment and outcomes-based evaluation with state innovation, flexibility, and improved coordination at the service delivery level. These partnerships are premised on the negotiation of clear goals and performance criteria, in exchange for which grantees can obtain considerable flexibility to combine affected programs and structure implementation to attain the goals. Standard accountability requirements can be relaxed because the character of the grantor/grantee relationship has been renegotiated. In theory, the new focus on outcomes reduces the need to emphasize inputs and outputs. Because the partnerships typically involve several related and complementary grants, the technique can potentially address issues of complexity and coordination as well.

The federal e-grant initiative, known as Grants.gov, seeks to provide greater flexibility by mitigating the demands of multiple programs and requirements. By using information technology to reduce the costs of information collection and ease the burdens

Three Innovations in Grant Design and Management

- Performance partnerships
- Grants.gov
- Extended waiver authority

of reporting requirements, e-grants hold promise for increasing access to federal project grants for smaller, less capable jurisdictions, thus mitigating the distributional paradox. The effort represents, in short, an effort to redress old problems through the application of new information technology.

Extended or “super” waiver authority is designed to give states the option to meld multiple federal programs from several agencies into integrated, locally tailored packages. Superwaiver proposals exist in somewhat different forms, of varying scope and detail. Some focus almost exclusively on providing added flexibility, allowing states to petition the federal government to combine programs from several departments and agencies. Others would add provisions for independent evaluation and testing, providing a melding of flexibility and assessment.

Performance Partnerships

Performance partnerships are agreements between states and the federal government intended to develop measurable performance goals and standards in the implementation of federal programs in return for greater state flexibility in achieving those objectives. The performance partnership concept is

intended to shift the focus of intergovernmental relationships from process- and output-related accountability toward measurable progress in achieving goals and outcomes. Depending on statutory flexibility and the design of the partnership arrangements, performance partnerships can also permit a form of negotiated, individualized grant consolidation, enabling enhanced program coordination and integration at the state and local levels.

To date, the performance partnership concept has been implemented primarily in the environmental policy arena, notably through the National Environmental Performance Partnership System, or NEPPS. This system had its origins in the early 1990s, when the Environmental Protection Agency (EPA) established the State Capacity Task Force to help redress intergovernmental friction and enhance state and local governments' ability to attain environmental objectives. The task force set the stage for performance partnerships by recommending development of a new framework for state/EPA relations, including a joint process for setting environmental goals and priorities, greater state flexibility, and more technical assistance to enhance state capacity. These efforts were also encouraged by the broader public management climate of the early 1990s, which—through initiatives such as the Clinton administration's NPR and congressional enactment of GPRA in 1993—encouraged greater emphasis on measurable outcomes and performance-based management.

NEPPS was formally established by an agreement between the EPA administrator and representative state administrators in 1995.³² The agreement established a new framework for implementing federal environmental programs, based on jointly developed indicators to measure progress toward a common set of national environmental goals; a greater reliance on self-assessment by states; more individualized federal oversight with greater use of post-hoc, outcomes-based reviews; increased public outreach and involvement; and joint program evaluation. These principles would be implemented through performance partnership agreements (PPAs) negotiated between EPA regional offices and individual states, with the affected programs, goals, and performance measures varying from state to state. In addition to the agreements, separate federal grants might be combined into broader and more flexible performance partnership grants (PPGs) as well.

Federal Environmental Grants Eligible for Inclusion in Performance Partnership Grants

Water pollution control (CWA 106)*

Hazardous waste management (SWDAI 301 la)

Air pollution control (CAA 105)

Pesticide enforcement (FIFRA 23a1)

Pesticide applicator certification (FIFRA 23a2)

Underground storage tanks (SWDA 2007f2)

Public water systems (SDWA 1443a)

Underground water protection (SDWA 1443b)

Nonpoint source program (CWA 319)

Water quality cooperative (CWA 1040)

Pollution prevention (PPA 6605)

Wetlands program (CWA (04b3)

Radon assessment and mitigation (TSCA 306)

Toxics compliance monitoring (TSCA)

Lead-based paint activities (TSCA 404g)

Environmental Information Exchange Network†

Multimedia Sector Program†

CERCLA Section 128(a) Brown-fields†

*Listed in order of most commonly to least often combined in a PPG.

†Eligibility for inclusion in performance partnership grants added in 2004.

Source: U.S. EPA, "Trends in Performance Partnerships, Environmental and Public Health Agencies, 1997–2000," <http://www.epa.gov/ocirpage/nepps/pdf/nepptrends.pdf>.

By 2000, 37 states had negotiated either PPAs or PPGs with the EPA; 28 states had both.³³ By 2004, 18 different federal grants were eligible for inclusion into performance partnership grants, ranging from water pollution control to underground storage tanks to lead-based paint removal.³⁴ (See “Federal Environmental Grants Eligible for Inclusion in Performance Partnership Grants.”) All combined, 248 individual state grants were combined in PPGs in 2000, and the average state PPG combined seven different EPA grants.

Although concentrated primarily in environmental programs, elements of the performance partnership concept have also been employed in other agency programs. For example, certain Federal Highway Administration programs utilize cooperatively developed performance measures.³⁵ In addition, the TANF block grant for welfare services and the NCLB program in education combine elements of greater state flexibility in some aspects of state implementation with strict performance requirements. The latter include recipient work requirements in TANF and student assessment requirements in NCLB. However, neither program’s approach to developing key performance goals and standards is truly cooperative. Key standards and design elements were developed unilaterally in Washington rather than developed jointly on the basis of an intergovernmental partnership.

Performance Partnerships and Dilemmas of Federal Aid

Performance partnerships are motivated in large part by their potential for addressing two of the basic dilemmas in grant design discussed in the previous section: the trade-offs between performance assessment and recipient flexibility and between federal accountability and recipient flexibility. For example, the May 17, 1995, agreement between the EPA administrator and state environmental directors stated:

This proposed [National Environmental Performance Partnership] system is designed to strengthen our protection of public health and the environment by directing scarce public resources toward improving environmental results, allowing states greater

flexibility to achieve those results, and enhancing our accountability to the public and taxpayers.³⁶

Specifically, the NEPPS was designed to provide interested states with greater flexibility and policy input, in exchange for greater responsibility for achieving results as measured by jointly negotiated performance indicators, rather than accountability for meeting traditional process indicators. As the letter of agreement stated:

[NEPPS] will also enable us to move progressively beyond the current system, which relies on numbers of permits issued, inspections made, or other similar measures. The results will be performance measures that more directly reflect changes in environmental quality.³⁷

These goals can be seen in specific partnership agreements signed between EPA regional offices and individual states. For example, the 2004 PPA between Illinois and Region 5 of the EPA included the following elements, among others:

- A commitment to work together as intergovernmental partners
- A statement of joint environmental priorities, including both broad commitments (such as developing a “municipal strategy” for assisting cities with implementation of clean water requirements and promoting environmental justice) and more specific goals (cleanup of the Waukegan harbor)
- The use of seven jointly agreed upon environmental goals and 14 objectives and indicators to guide planning and implementation
- The provision to Illinois of the “greatest degree of flexibility allowable under existing laws and delegation guidelines”
- The use of alternative dispute resolution for federal/state conflicts arising under the agreement
- The establishment of a PPG, combining or coordinating 11 categorical grants in five program areas (clean air, clean water, waste management, toxic chemicals, and innovative envi-

ronmental protection) to provide greater state flexibility and capacity to focus on integrated environmental solutions and management³⁸

Assessing Performance Partnerships

In general, the experience with performance partnerships to date has been positive, although the system has yet to fully live up to expectations. The NEPPS has permitted somewhat greater state flexibility and attention to outcomes, and it continues to draw support from many states and the EPA. However, NEPPS has provided less reduction in process-related oversight than hoped for, and comparing state performance data and best practices has been difficult. Consequently, both the Environmental Council of the States (ECOS) and the National Academy of Public Administration have been commissioned to evaluate the system and recommend strategies for future improvements.

On the positive side, most evaluations to date, as well as the experience of participants in the Grants Working Group Conference, have identified favorable outcomes from NEPPS. The U.S. Government Accountability Office (GAO) found that NEPPS had allowed a greater focus on state and local priorities.³⁹ GAO also found that the system generated somewhat less state reporting and process-related on-site reviews, which is consistent with performance partnerships' intent on emphasizing outcome evaluations. As one state manager observed in a recent evaluation of NEPPS: "The PPA has been beneficial. Day-to-day operation has been collegial over the past year and bean counting has been diminished."⁴⁰

GAO has also found that NEPPS provides potential for states to experiment with more innovative regulatory approaches. The state of Minnesota used its PPA to promote cross-media environmental reporting, in line with the reorganization of the state's environmental protection agency.⁴¹ Performance partnership agreements also have provided a foundation for improved communications and joint planning between states and EPA's regional offices.⁴²

Finally, performance partnership grants can provide additional flexibility for states. GAO found that one-third of all environmental grants were combined in PPGs in 1998. The program remains popular with many states, and, as of September 2004, 31 states

were operating PPGs, involving 50 different state agencies.⁴³

Environmental performance partnerships are not without problems, however. A 2005 report by an EPA-ECOS workgroup found that many states "have expressed concerns that transaction costs are high" in the performance partnership program.⁴⁴ Detailed and often long negotiations are required to reach federal/state agreement on performance measures, for example. This concern mirrors the observation by Grants Working Group participants that the intensive negotiations required to launch effective performance-based partnerships are difficult to replicate in many fields.

In addition, GAO has found less reduction of federal regulatory oversight and less focus on results in federal reviews than many states had hoped for.⁴⁵ In part, such disappointments were found to stem from constraints and fixed requirements in federal environmental statutes. As one EPA official has observed: "The process itself built unrealistic expectations, particularly regarding PPAs/PPGs. People want PPAs/PPGs to replace delegation agreements, but that cannot happen due to legislation." Problems can also be traced to the lack of understanding, support for, and involvement in the NEPPS process by EPA headquarters. As the EPA-ECOS workgroup put it: "States interviewed and, in particular, [EPA] regions raised concerns that EPA national programs do not appear to have a strong understanding of PPAs and PPGs, and that this causes tensions when the national programs ask the regions and states to do things that are not consistent with existing PPAs or PPGs."⁴⁶ An EPA headquarters manager has complained that national staff are out of the loop: "There is a fundamental problem—nobody knows what is actually in a PPA. HQ does not receive any PPAs or PPGs."

Another continuing problem confronting the performance partnership system involves difficulties in identifying and analyzing core performance data.⁴⁷ State agreements are individualistic, making it difficult to determine patterns and best practices. "The problem is that there's not much consistency from one PPA to the next.... They're hard to look at as the main planning document because each is so different from every other.... They haven't been a useful tool for planning or management."⁴⁸

Finally, EPA's performance partnerships have not yet been able to fully resolve the trade-offs between performance assessment and accountability. EPA national staff have complained that "PPA accountability is not clear." Others have argued that a lack of state reporting under PPAs and PPGs is "the largest single problem" with the system. Many states, of course, continue to believe that there is too much reporting still required under the system. Tensions in this area still remain.

Grants.gov

Grants.gov is a centralized Internet portal for searching and applying for federal grants. It provides a single point of entry and common interface for hundreds of different federal grant programs. It also standardizes the application process for grants from different federal agencies, simplifying data requirements and reducing redundancy and paperwork burdens.

Grants.gov has its origins in the Federal Financial Assistance Management Improvement Act of 1999 (P.L. 106-107). P.L. 106-107 sought to simplify federal aid processes and promote greater coordination among grant-making agencies. Specifically, the act required each federal agency to:

- Develop and implement a plan to streamline and simplify the application, administration, and reporting procedures for federal grant programs.
- Demonstrate active participation in interagency grant coordination efforts.
- Develop a system allowing applicants to electronically apply for and report on the use of grant funds.

The George W. Bush administration has worked to implement this latter goal as part of a broader set of management reform and e-government initiatives. As the President's Management Agenda for FY 2002 stated: "Agencies will allow applicants for federal grants to apply for and ultimately manage grant funds online through a common website, simplifying grant management and eliminating redundancies in the same way as the single procurement portal will simplify purchasing."⁴⁹

Federal agencies and OMB began working in earnest to implement this vision in 2002. Common

definitions of key grant-related concepts were developed, links were established to the *Catalog of Federal Domestic Assistance*, and pilot web projects were launched. By 2004, 26 federal agencies were participating in the Grants.gov system, providing access to 900 different grant programs for state and local governments, nonprofit organizations, educational institutions, and individuals. Grant applicants can now search for grants online, download and submit applications, and receive e-mail notification of new grants in their areas of interest.

Searching for potential grants is the most popular of these functions among users of the system. According to a recent survey of grantors and users by IBM/Rockbridge, 86 percent of users search for grant opportunities online, and 64 percent have requested e-mail notification of new grants. Only 30 percent of users currently submit their applications electronically, however.⁵⁰ Thirty-seven percent of users visit the Grants.gov site at least once a week, and 80 percent use it at least once a month. For additional information on Grants.gov, see the interview with Rebecca Spitzgo, program manager of Grants.gov, presented in Appendix III.

Grants.gov and Dilemmas of Federal Aid

An electronic grants management system holds promise for addressing three of the dilemmas of federal grants-in-aid discussed in the previous section. First, because e-grants hold potential for simplifying the grant application and reporting processes, the system can potentially reduce the trade-offs between accountability and flexibility. Standardizing data requirements and keeping previously submitted data on file for future grant applications and reports can reduce redundancy and paperwork for applicants, thus mitigating the burdens of some accountability provisions. Tracking of applicants' and recipients' activities becomes easier for agencies and less burdensome for users.

Second, information technology offers some potential to ease trade-offs between accountability and performance. To the extent that the burdens of federal accountability provisions detract from time spent effectively managing programs, accountability and performance management can work at cross purposes. Again, simplification and coordination encouraged by electronic processes offer some modest potential for addressing this trade-off.

Finally, information technology offers hope of reducing the trade-offs between recipient needs and capacity. Institutional capacity for finding, successfully applying for, and managing grants is inversely correlated with the size and sophistication of local governments and nonprofit agencies. Those most in need of federal assistance are often least likely to know what is available or how to successfully apply for aid. Smaller and poorer jurisdictions often feel compelled to hire consultants to assist with the process—meaning that those who can least afford it spend precious resources on external assistance—or they may forgo consultants and abandon the grants process entirely. Grants.gov offers hope of breaking this vicious cycle. To the extent that information technology can simplify the process and give all jurisdictions access to online training, information, and technical assistance, it can level the field and reduce the trade-offs between need and capacity.

Assessing Grants.gov

To date, experience with the Grants.gov process has been largely favorable. The system has produced greater access, simplification, and standardization in the grant application process, and evaluations by both users and grantors have been generally positive. On the other hand, the system has not overcome fundamental, structural problems in the grant system, and it has yet to fully tackle the most complex stages of the grants management process. The effects have been and may inevitably remain incremental in nature.

Most positively, the attitudes of grant applicants and recipients, as well as grantor agencies, generally have been favorable toward Grants.gov. In a 2005 survey of 179 Grants.gov users, 40 percent were highly satisfied with the system, and another 34 percent were moderately satisfied.⁵¹ Satisfied users found the system to be user-friendly, convenient, and fast. Two-thirds of users surveyed thought the system met or exceeded their expectations, and 60 percent thought that Grants.gov had improved the application process. Eighty-eight percent of grantors reported themselves moderately or highly satisfied with Grants.gov as well. Grantors believed the system was easy to use, conveniently centralized, and steadily improving.⁵²

Grants.gov has also shown some potential to mitigate the trade-offs between community needs and

institutional capacity. As Patricia Stevens of Fairfax County observed at the Grants Working Group Conference, “I am very excited about the things I’ve heard—getting some consistency in applications, being able to take material from one application and cut and paste it into another one, and zap it out electronically. This helps with lower-capacity jurisdictions.” Similarly, the grants coordinator for a small town in South Carolina observed: “For a small municipality like ours with limited grants staffing, Grants.gov has been a wonderful time-saving tool.”⁵³

It is important to recognize, however, that IT solutions are limited in what they can accomplish on their own. Fundamental structural problems, including inevitable differences between hundreds of separately authorized grant programs, cannot be solved solely by creating a common “electronic storefront” for the existing grant system. As Professor Enid Beaumont observed at the Working Conference: “There are a lot of good things about e-government, but you can’t just automate the systems you’ve got now and expect fundamental improvement.”

Moreover, accomplishing change takes time and resources. The IBM/Rockbridge survey of Grants.gov users found that grantors still receive 70 percent of grant applications on paper rather than electronically.⁵⁴ Moreover, transitioning effectively to a new system of grantor/grantee interaction requires training and technical assistance. As Elizabeth Griffith of the Justice Department observed: “Everything now has to be applied for online. We are not making exceptions anymore for tribes and low-capacity applicants, but we’ve put a lot of resources into training. It has to be based on content, not just electronic systems.”

Finally, the greatest progress to date has been at the pre-award stages of the grant cycle—finding and applying for grants. The post-award stages—financial and performance reporting and auditing—pose additional challenges and complications, many of which are still being resolved.⁵⁵ In addition, a fully developed electronic grant system of greatest benefit to smaller users will need to extend down to the subgrantee level. Many small communities and nonprofit organizations interact most heavily with state and local governments, which act as middlemen in the distribution of federal aid. Some progress has been made toward including subgrantees into

the process, but much more needs to be done. As the annual progress report on implementing P.L. 106-107 concluded: “We characterize our efforts to streamline and simplify the award and administration of federal grants—by making transactions with federal agencies easier, cheaper, quicker, and more understandable for the many thousands of grant applicants and recipients—as a long journey.” Substantial but incremental progress has been made to date, but much more work remains before the vision of a simplified, coordinated web-based grant system becomes a reality.

Extended Waiver Authority

Extended waiver authority would give states additional flexibility to experiment with integrating federal welfare, job training, and social service programs, unencumbered by many existing program rules and requirements (though subject to federal agency approval). Such authority, sometimes known as “superwaivers,” expands on earlier experience with welfare policy waivers under the Aid to Families with Dependent Children (AFDC) program that preceded and contributed to the enactment of welfare reform in 1996. Superwaiver authority marks a major expansion over these earlier waivers by allowing states to propose funding transfers and rule changes between multiple programs, including food stamps, housing assistance, job training, and income-support programs.

Waivers in the AFDC program were first authorized in 1962, but they were not used with any frequency until the 1980s. Congress expanded the scope of federal waiver authority in the Omnibus Budget Reconciliation Act of 1981 and the Family Security Act of 1988, and the use of waivers grew rapidly in the early 1990s. States received federal agency approval to experiment with various welfare policies that were not otherwise allowed under existing rules. For example, Wisconsin received waivers to provide supplemental services to support work requirements and to reduce family benefits if children were truant from school; Michigan imposed a one-year limit on receipt of welfare benefits for recipients who failed to meet work requirements; and New Jersey experimented with a “family cap,” keeping welfare benefits constant if children were born to a family already on welfare.⁵⁶ Many of these provisions were later integrated into the TANF block grant program.

In 2002, the Bush administration proposed including expanded waiver authority in the reauthorization of the TANF program. The administration’s proposal allowed states to seek waivers across a range of low-income programs, including TANF, food stamps, job training, housing assistance, and post-secondary education programs.⁵⁷ States would submit waiver applications and negotiate with federal agencies to waive or modify specific eligibility and program rules. States would still be required to assist the same general populations served by the original programs, would be subject to negotiated performance requirements, and would be subject to “stringent cost neutrality requirements.” They could propose shifting funds between program areas, but not spending more than would otherwise be provided by federal aid.

The House of Representatives adopted the essence of the president’s proposals and included them in House-passed versions of welfare reauthorization legislation in 2002, 2003, and 2005. However, faced with strong opposition to the superwaiver concept from many organizations providing assistance to low-income groups, the Senate has thus far refused to include broad waiver authority in TANF reauthorization legislation. The issue currently remains stalled in Congress.

Extended Waiver Authority and Dilemmas of Federal Aid

Depending on their specific design, superwaivers have potential to mitigate trade-offs between performance assessment and grantee flexibility. This is possible if specific performance goals and measures are included as part of the waiver agreement, along with negotiated increases in state flexibility. This precise concept was envisioned, although in general terms, in the Bush administration’s initial proposal for extended waiver authority, which specified that:

States will need to describe the integrated performance objectives and outcomes for the proposed program, including any modification to reporting requirements and performance measures. Integrated programs for which waivers are granted will be operated as demonstration programs, and participating states will be required to evaluate the program.⁵⁸

If properly implemented, this combination of extended waiver authority and carefully designed performance assessment could develop similarities to performance partnerships, though with the added complication of multi-program, multi-agency negotiations and agreements.

Extended waiver authority also promises to address the trade-off between accountability and program coordination. The unique feature of superwaivers is their focus on integrating distinct but related programs, thus addressing grantee appeals for integrated services tailored to local needs. Because such programmatic integration is accomplished through negotiated agreements rather than automatically, through grant consolidation, the potential exists for stronger accountability provisions.

Finally, superwaivers can help address conflicts between predictability and innovation in program funding. Federal stimulation of new program innovation is typically accomplished through project categorical grants, but such programs are unpredictable and make local planning and investment difficult. Extended waiver authority could potentially be used to promote novel program innovations, while at the same time providing a measure of predictability through multi-year waiver agreements.

Assessing Extended Waiver Authority

Unlike performance partnerships and Grants.gov, extended waiver authority has not been enacted or implemented to date, so there is no precise record of experience with this innovation to examine. However, it is possible to draw some conclusions from earlier experience with narrower waiver programs in the AFDC and Medicaid programs. Moreover, advocates and opponents of the superwaiver concept have identified both potential advantages and possible drawbacks that warrant close consideration.

The federal government and the states gained considerable experience with welfare policy waivers in the 15 years prior to the enactment of welfare reform in 1996, and many of these waivers were extended even after the adoption of the Personal Responsibility and Work Opportunity Reconciliation Act. Welfare waivers were based on section 1115 of the Social Security Act, which allowed states to request waivers from various legal and adminis-

trative requirements of the AFDC program. Such waivers had to be requested by individual states and approved by the secretary of the Department of Health and Human Services, and they were intended to be for experimental or pilot programs subject to rigorous external evaluation. Between 1993 and 1996, 43 states received waivers of various scope and significance for the operation of their state welfare programs.⁵⁹ These included such things as broader work requirements for welfare beneficiaries, time limits on the receipt of benefits, family caps, higher income disregards, and altered child support enforcement provisions.

In retrospect, the waivers laid a foundation for welfare reform, and many of the experimental provisions were subsequently adopted as part of statutory welfare reform in 1996. They represented a classic case of utilizing states as laboratories of experimentation. At the same time, waivers have not always lived up to the letter of their agreements or to performance expectations. GAO studies of several states with Medicaid waivers, which were granted to extend healthcare coverage to broader low-income populations, have found that the waivers often fail to meet statutory goals and budget neutrality:

HHS has not, with its recent approvals of waivers under the new flexibility initiatives, consistently ensured that waivers are in line with program goals and are budget neutral.... HHS is allowing the use of unspent federal SCHIP [state children's health insurance program] funding to cover adults, including adults who have no dependent children.... Similarly, HHS did not adequately ensure that the waivers will be budget neutral.⁶⁰

Past experience aside, both advocates and opponents of superwaivers argue that the tool will have more sweeping effects than the more limited, generally program-specific waivers of the past. On the positive side, extended waivers offer the opportunity to adapt the panoply of low-income assistance programs to meet the diverse needs of different localities and program clients. Clients' needs are often deeply interrelated—requiring a mix of cash assistance, support services, food, housing, and medical care—and government's response should be as well. As scholars at the Brookings Institution have noted:

Unlike the straightforward provision of welfare payments, successfully putting unskilled people to work is a complicated process.... [It places] into sharper focus the importance of providing work-related supports—including food stamps, child support, housing assistance, workforce programs, and more—that extend well beyond traditional income maintenance and instead assist the transition from welfare to work. A number of these programs are subject to disparate standards as to who can qualify, how funds are to be spent, how cases must be managed, and other separate stipulations that, unless aligned, may ultimately diminish the capacity of states to raise the long-term living standards of poor people.⁶¹

Opponents of the concept fear that specific needs that are addressed by individual programs could be neglected. As the National Head Start Association informed its members in a “legislative alert” on welfare-reform reauthorization: “If Head Start were included in the ‘super-waiver’ provision, a governor could request a waiver to use Head Start dollars, but could ignore the performance standards, refuse to target the neediest of children and families, and basically have a free hand to use the money any way they deem fit.”⁶² Similarly, the National Low Income Housing Coalition has warned that a superwaiver could be used for nefarious purposes: “States, cities, and local agencies could end up shifting housing assistance away from those most in need and toward those who are easier to serve or fit HUD’s [the Department of Housing and Urban Development] or a governor’s particular political goals.”⁶³

As this last objection suggests, superwaivers raise governance concerns as well as programmatic ones. They entail a shift of power from the legislative branch to the executive at both federal and state levels. Otherwise, controlling statutory provisions can be waived by agreements between governors and cabinet officials. As the Center for Budget and Policy Priorities has argued:

If enacted, the superwaiver proposal would alter the balance of power between Congress and the executive branch in the executive branch’s favor. The superwaiver

provision would allow any administration, in conjunction with one or more governors, to make unilateral changes in programs that Congress might not—or had already declined to—approve.⁶⁴

Many of the controversies involving superwaivers are similar to those heard in debates about block grants. Extended waiver authority does offer genuine potential for enhancing the integration of separate but related programs, thus improving the ability of state and local governments to respond more effectively to the complex challenges faced by low-income beneficiaries. At the same time, critics have raised legitimate concerns about superwaivers. Certainly, the unprecedented flexibility provided in House-passed versions of the concept could be subject to political abuse. Yet, as our experience with block grants has demonstrated over time, neither the worst fears of opponents nor the fondest hopes of proponents are likely to be realized in practice. A substantial degree of institutional, political, and conceptual conservatism permeates the implementation environment, and this tends to limit the scope and pace of policy change.

The best way to take advantage of the promise of extended waiver authority while limiting the dangers is to adopt the approach on an experimental basis. As Ron Haskins has argued, “The solution on the superwaiver provision is to drop the universal waiver provision and enact authority for just three to five states to experiment with the new flexibility provided in the House bill.”⁶⁵ To be truly useful, however, such experiments and demonstrations must be rigorously and independently evaluated. The evaluation requirements in earlier welfare policy waivers were generally strong, and this orientation should be maintained and strengthened under any program of superwaivers, thus maximizing their potential for social learning.

Improving Grants for the 21st Century: Findings and Recommendations

Once the hallmark of cooperative federalism, the federal grant system has come under stress. The growth of federal mandates, many linked to grant programs, has eroded trust in the intergovernmental system. Funding for many grant programs, like most discretionary spending, is increasingly squeezed by the rapid growth of entitlement spending, particularly Medicare and Medicaid. With the return of large federal deficits, grants and other discretionary spending will face additional constraints for the foreseeable future.

Given increased pressures on the system, demands for higher levels of performance and efficiency in the grant system are increasing. The future of the system will depend on improving the performance of federal aid programs—both individually and collectively—as well as mitigating the dilemmas of federal aid discussed in previous sections. Trade-offs between competing values in the system remain inevitable. However, significant improvement is possible by updating and enhancing the grant system for the 21st century. After a brief review of findings from this study, several options for improvement are discussed.

Findings

Finding 1: Innovations Show Promise.

The innovations examined in this report all show a degree of promise in diminishing some of the difficult dilemmas that confront grants-in-aid. Performance partnerships have demonstrated a capacity to provide somewhat greater state flexibility while enhancing performance assessment and attention to outcomes. Grants.gov has helped to simplify and standardize the grants application process, and it has shown promise in mitigating trade-offs

between recipient needs and capacity. Superwaivers have no track record to date, but prior use of waivers in the welfare system has established a case for proceeding on a carefully controlled basis.

Finding 2: No Single Grant Design Resolves All Issues.

There are no panaceas in grant design. No innovation or design strategy is ideal under all circumstances, and all of the innovations examined in this report have limitations as well as potential. Putting genuine partnership into performance partnerships is a difficult and time-consuming process. Grants.gov can ameliorate but not alter structural problems in the grant system, and it has proven easier to apply at some stages of the grants management process than others. Superwaivers illustrate the maxim that the freedom to excel implies the freedom to fail. By shifting an unprecedented degree of authority to executive officials at both the state and federal levels, superwaivers create risk as well as opportunities for innovation. Finally, trade-offs between competing values in the intergovernmental system will persist to some degree regardless of innovation. Some tensions between need and capacity or between accountability and flexibility are inevitable.

Finding 3: Improvements Require Time and Investments.

Improvements in the grant system tend to be incremental, and they are often slow and difficult. Genuine progress requires time, experience, and experimentation, as evident in the gradual enhancement of the Grants.gov system or the evolution of performance partnerships. Progress also requires investments in research, evaluation, staff, and training at all levels of government. Developing

improved performance-measurement systems, careful evaluations of demonstration projects, and increasingly sophisticated web portals requires investments in research, training, and information technology.

Finding 4: Reform Involves Action on Many Fronts.

Sustained improvements in the grant system require actions on many different levels: administrative, statutory, and systemic. Recommendations addressed to each level are presented below. It is important to keep in mind, however, that progress on one level can be hampered or reinforced by actions on another. For example, many enhancements in the Grants.gov system can be accomplished administratively, but the entire initiative was propelled forward by enactment of the Federal Financial Assistance Management Improvement Act of 1999, and it could be supplemented by statutory grant consolidation.

Enhancing the Grant Instrument for the 21st Century: Recommendations

Many grant-reform initiatives can be undertaken administratively, within the parameters of existing statutory authority. Some of these options have the potential to strengthen and improve the implementation of Grants.gov and performance partnerships, for example. Other actions require statutory change, such as the enactment of extended waiver authority. Finally, other reforms are comprehensive in nature, affecting a broad spectrum of grant programs.

Recommendation 1: Make Administrative Improvements to Grants.gov.

The Grants.gov initiative deserves to be continued and expanded. Considerable progress has been made to date, warranting continued investment and additional resources. In the process, consideration should be given to the following options, some of which expand developments and plans already under way:

- Devote greater attention and resources in the Grants.gov initiative to the post-award process, simplifying and standardizing reporting and accountability processes. Such simplification has been a long-term project in grants management, as evident in the Single Audit Act and

various OMB circulars. The careful but aggressive application of information technology can accelerate further progress.

- Extend the Grants.gov process down the implementation chain, providing federal support to replicate processes at the state level.
- Provide additional technical assistance and online training modules for low-capacity jurisdictions.

Recommendation 2: Deepen and Enhance Performance Partnerships.

The performance partnership process between EPA and the states warrants continued expansion and greater depth of partnership. EPA's cooperation with the Environmental Council of the States and the National Academy of Public Administration to sponsor research on effective performance-measurement systems and to engage in planning for strengthening environmental partnerships is commendable. In that process, the following approaches warrant consideration:

- Establish stronger commitment and involvement by program and headquarters staff in the performance partnership process. Effective partnerships for the long term cannot rest solely on agreements between EPA regional staff and individual states. Greater acceptance and involvement by EPA headquarters staff must become a higher priority in the agency.
- True partnership must begin at the earliest stages of planning. Bringing states in to negotiate agreements once the parameters of programs are fully developed falls short of genuine collaboration. Bringing state and local implementing agencies into the process as early as possible can pay dividends in the level of commitment to effective implementation and in the achievement of program goals later on.
- Continue building state capacity for effective performance management of environmental programs. Efforts to do so are well under way, but small states in particular will need continuing assistance to move toward effective measurement, assessment, and management of performance outcomes.
- Enhance the use of performance partnerships for learning as well as implementation. Future prog-

ress depends on pushing the envelope on effective performance management and assessment. Performance-based management is still a work in progress, and partnerships can be used more aggressively to promote innovation, risk taking, and experimentation. Genuine learning comes from mistakes as well as successes, and a more effective partnership program will encourage controlled opportunities to learn in the absence of caution-inducing sanctions.

Recommendation 3: Advance Statutory Initiatives.

Some improvements require changes in law as well as administrative practice. This includes the expansion of existing approaches, such as performance partnerships, into new areas, as well as the enactment of new initiatives. Finally, the process of enacting new and reauthorized grant statutes could be enhanced by the creation of additional legislative support structures.

- **Recommendation 3a: Encourage the use of performance partnerships.** While still developing as a policy instrument, performance partnerships warrant use in fields beyond environmental protection. Although cooperative federal/state relationships exist in other fields, this mechanism's focus on accountability for results merits broader emulation. Although statutory authorization may not be needed in all fields where the tool might usefully be implemented, Congress should consider broader authorization and encouragement of the technique in other domestic policy fields. Additional statutory recognition and authority for PPAs would also help strengthen the process in environmental policy.
- **Recommendation 3b: Enact a superwaiver pilot program.** As part of welfare-reform reauthorization, Congress should enact extended waiver authority in a small number of states for demonstration purposes. The potential for stimulating more effective integration of services for low-income clients, and the corresponding potential to positively affect employment, income, and well-being, is too strong to be ignored. Because of the potential for adverse effects, however, and because much more needs to be learned about effective program integration, superwaiver
- experiments should be time limited, closely monitored, and carefully evaluated by independent research organizations.
- **Recommendation 3c: Promote intergovernmental consultation.** Congress should address the vacuum in objective intergovernmental consultation and research in the wake of the demise of the U.S. Advisory Commission on Intergovernmental Relations. Although the original commission structure may have outlived its usefulness, no entity to date has been able to fill the need for impartial analysis focused on issues of mutual intergovernmental concern. Legislative support for a new entity is an indispensable element of the solution, possibly under the auspices of the National Academy of Public Administration.
- **Recommendation 3d: Draft new laws.** Congress also has need of additional support to assist with designing and drafting new grant legislation. Such support would allow committees as well as individual members of Congress to benefit from existing and developing knowledge about effective grant design and performance. Such assistance could be provided by one of the existing legislative staff agencies or—because each has its own strengths and limitations in the process—by a collaboration between existing agencies.
- **Recommendation 3e: Reduce the use of earmarks.** Finally, Congress should re-evaluate its growing use of legislative earmarks in the distribution of grant funds. The expanding reliance on earmarks is increasingly difficult to justify in the context of tightening fiscal constraints. In areas where it may be unrealistic to eliminate earmarks altogether, Congress should consider rolling back and capping the percentage of funds subject to such distribution.

Recommendation 4: Promote Systemic Reforms.

The history of grants management and reform make it clear that changes in the system must be viewed from a comprehensive, systemic perspective as well as on the basis of individual programs and grants. Several of the statutory initiatives discussed have systemic as well as legislative implications. A follow-on entity to the Advisory Commission on

Intergovernmental Relations—to collect data and perform intergovernmental research—and congressional restraint in earmarking are cases in point.

Other systemic initiatives include:

- **Recommendation 4a: Establish a community of practice.** An intergovernmental community of practice for the grant instrument merits establishment and support by grant-making agencies. The Working Group on Federal Grants that contributed to this report clearly demonstrates the value of this approach. Membership should include knowledgeable and responsible representatives from the major grant-making agencies, as well as from state and local governments, nonprofit organizations, and policy analysts and scholars. Broad but knowledgeable participation would enhance the potential for sharing information and best practices across different policy fields and levels of government.
- **Recommendation 4b: Reduce the number of categorical grants.** Congress should refrain from establishing new categorical grants. Irrespective of the often considerable value of individual programs, categorical proliferation becomes unmanageable at the system level. Congress should consider making a significant reduction in the number of existing programs through a new round of grant consolidation, and then utilize period reassessments to limit future recategorization.
- **Recommendation 4c: Modify PART.** OMB's Program Assessment Rating Tool, or PART, process needs to be re-evaluated from an intergovernmental system perspective. Flexible grants do poorly under the rating system, as do some other third-party government tools. Among grants, narrowly prescribed categorical grants tend to rate highest, yet further stimulation of such grants leads to clear dysfunctions in the broader system. OMB must redouble efforts to develop a rating tool that works more effectively with broad-based and comprehensive grants.
- **Recommendation 4d: Encourage intergovernmental deference.** Finally, there is a behavioral dimension to enhancing performance of the grants-in-aid system. A greater degree of forbearance by all actors at all levels in the system could mitigate many of the dilemmas in the grant system. Congress needs to find ways to

resist the powerful political urges that promote categorization and earmarking. Federal agencies need to resist the urge to write strict rules based on worst-case scenarios. And state and local governments and other grant recipients would enhance trust and limit rigid accountability requirements if they refrained from the temptation to game the grant system for short-term advantage, as occurs chronically in the Medicaid program. Such forbearance could markedly increase trust and promote greater responsibility across the system.

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Appendix I: Design Features of Federal Grants⁶⁶

Grants-in-aid come in a wide variety of sizes, shapes, and forms. The differences in size can be dramatic. As shown in Table 3 on page 18, the 20 largest federal grants deliver over three-quarters of all federal aid dollars given to state and local governments. By contrast, the smallest two-thirds of federal grant programs—the 484 programs funded at \$50 million or less—deliver less than 2 percent of all federal aid dollars. Such stark differences in size pose difficulties for making sense of the federal-aid universe. To further that understanding, grants are commonly distinguished along three basic dimensions: *scope or breadth of purpose, method of allocation, and degree of recipient discretion.*

Scope of Purpose

Most grants must be used for particular purposes, as specified by the authorizing statute and/or the donor agency. Although these purposes may be either narrowly or broadly defined, most grants are quite specific. For example, the U.S. Department of Education offers over 120 grant programs, including separate programs for the support of civic education, foreign-language assistance, arts education, and early childhood education. There are 10 different programs for special education and 12 more for rehabilitation research and services. Such narrowly defined grants are commonly called “categorical” grants.

Other grants provide greater breadth or wider scope of flexibility in the use of funds. These include “block” grants and “general-purpose” grants. Block grants provide assistance for a fairly broadly defined function. They offer the recipient far more discretion in determining the use of funds, and give the national government less control—and, typi-

cally, less information as to how grant funds were employed. Many block grants were formed initially through the consolidation or merger of several similar, closely related categorical grant programs.⁶⁷

General-purpose aids are even broader, as they have essentially no restrictions on the use of funds. Such grants figure more importantly in the theory of fiscal federalism and the practices of other nations than in U.S. fiscal operations. Here, the main such program at the national level, General Revenue Sharing (GRS), which provided \$6.1 billion in assistance annually, proved temporary. It was enacted in 1972 but eliminated for states in 1980 and for local governments in 1986.⁶⁸ Born in part out of the expectation of ongoing federal surpluses in the mid-1960s, it was sacrificed in the 1980s partly on the basis that there “was no longer any revenue to share.” But, while they existed, GRS funds were allocated to essentially all state and local jurisdictions, on a formula basis, with no application process, essentially no limitations on appropriate expenditures, and no reporting requirements. At the state level, approximately 8 percent of state aid to local governments was provided in the form of general-purpose support in 1996.⁶⁹

Duration and Method of Allocation

Here, the basic distinction is between “formula” and “project” grants. This is the fundamental distinction made in the *Catalog of Federal Domestic Assistance*, which is the most comprehensive listing of aids for governments, organizations, and individuals.⁷⁰ “Project” grants are awarded through a competitive application review process in support of a particular activity for a limited period of time, generally one year (although such grants often may be renewable).

In contrast, the recipients of a “formula” grant receive predetermined amounts of funds, based on statistical calculations that typically employ proxy measures of need. For example, the 1974 Community Development Block Grant program distributes funds to eligible “entitlement” cities through a dual set of formulas.⁷¹ One formula is based on three factors: population (weighted 25 percent in the formula), poverty (50 percent), and overcrowded housing (25 percent). When various jurisdictions and constituencies proved to be unhappy with the distribution of funds provided under that formula, a second formula was added to the law that distributed funds according to relative local economic growth rates (20 percent), poverty (30 percent), and age of local housing stock (50 percent).⁷² Most federal dollars are expended through such formula grants, as most of the very largest grants take this form. On the other hand, smaller “project” grants account for most of the large number of programs.

Some formula grants—few, but including Medicaid, the single most costly program—are awarded on the basis of an “open-ended” matching formula. That is, the federal government matches state expenditures without any upper limit. These grants are “entitlements” to the states and “uncontrollable” from the national vantage point, in that the level of funding depends upon state actions, not the independent decisions of the congressional appropriations committees.

Degree of Federal or Donor Control

Grant programs can vary widely in the degree of control over their use exerted by the grantor, and donors have a variety of techniques at their disposal for ensuring that recipients perform as promised or intended.⁷³ Today, typical federal grants to state and local governments require an *application*, describing the intended beneficiaries, detailed plans, and scheduled operations. Upon receipt of funds, recipients are typically required to undergo annual financial *audits* and file annual *reports*. Several large formula grants also impose *maintenance of effort* requirements as well, in an attempt to ensure that recipients do not use federal funds merely to supplant state or local spending for the same purposes.

In recent years, federal grants increasingly have been encumbered by a range of crosscutting requirements that apply to all or most federal aid

programs. Such requirements range from environmental standards to bans on racial, sex, age, and handicapped discrimination to requirements that federal aid recipients pay workers the prevailing union wage.⁷⁴

Other Design Features

The formula-project, categorical-block, and degree-of-control dimensions are the keys in separating out the major types of grants-in-aid. But programs also differ in a number of other particulars. These include, for example, variations in recipients and the distribution process; whether states, local governments, Indian tribes, nonprofit organizations, and research institutions are eligible; and so forth. Even grants to governments have room for variation: In many cases, grants to states are “passed through” to localities. Or, different procedures may exist for federal grants to states and for local governments.

Grants vary importantly in whether or not they require a “match” from recipients. That is, some grant awards are dependent upon recipients providing some of their own financial support for the activities aided or project proposed.⁷⁵ And there are associated differences in the kind of match anticipated (“hard” cash versus “soft” or “in kind”); in maintenance-of-effort provisions requiring recipients to show that they have continued to support an activity out of their own funds over time; and in duration, renewability, reporting requirements, and evaluation procedures.

Appendix II: Working Conference on Improving Grant Operations

February 26, 2004 Session
National Academy of Public Administration
1100 New York Avenue, N.W.
Washington, DC 20005

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Appendix III: An Interview with Rebecca Spitzgo, Program Manager, Grants.gov

(This interview first appeared in the Spring 2005 issue of The Business of Government magazine.)



Rebecca Spitzgo
Program Manager, Grants.gov
Department of Health and
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Granting Access to Applicants Large and Small

Several years ago, a person searching for a federal grant had to go to great lengths to find and apply for federal grants. Each grant-making agency, 26 agencies in total, had a different application process. This all changed with the creation of Grants.gov. "Grants.gov was part of the Public Law 106-107, which is a mandate to streamline and simplify the way the federal government does grants," explains Rebecca Spitzgo, program manager for Grants.gov. "It simplifies the grants management process by providing a central online system to find and apply for grants across the federal government."

The vision of the Grants.gov program is to provide a single website so that citizens see the same interface no matter which agency they are conducting business with across the government. "Now the grant community has a single site to research the 900 grant programs currently available and apply for nearly 360 billion dollars," says Spitzgo. The program makes the grant process quick, easy, and accessible for all applicants.

Spitzgo came to Grants.gov from the Department of Education, where she spent much of her career working with education grant programs. Based on her prior experiences, Spitzgo understood that the grant community, especially the smaller applicants

without many resources, had special needs when it came to searching and applying for grants. "One of the things that we heard in our focus groups and our work with the grant community is that the smaller grantee is really struggling to get into the federal grant arena and they don't have [adequate] resources," Spitzgo says. "They don't have the grant writers. They don't have someone to go and look and find the grants for them. They often don't have high-speed Internet connectivity, so they're relying on telephone lines ... to submit their forms." Spitzgo and the Grants.gov team incorporated the grant community's comments into the system's design.

Grants.gov has two components to assist citizens with finding and then applying for grants. The "find" piece of the website went into full operation in November 2003. Applicants begin the grant process by searching for potential opportunities by subject matter or eligible applicants. A synopsis of each grant includes information that people are typically most concerned with: the amount of money that is available, the purpose of the grant, and who is eligible. The "apply" piece of Grants.gov allows applicants to download an application package that includes all the forms and instructions. By downloading the package, applicants can then complete the forms offline and submit their application through the Internet when they are finished. Grants.gov notifies the agency issuing the grant so it may review the final application package and make awards.

Success of the Grants.gov program depends upon regular communication with the grant community through a variety of media. Spitzgo and her team take the Grants.gov message on the road through seminars and conferences to reach out to experienced and novice grant applicants. "We do a lot of presentations," she explains. "We go on the road

to large conferences, as well as small ones, and we go to rural areas because we feel like that's where the message can make the biggest difference." The Grants.gov team identifies channel partners, or agencies and organizations that regularly communicate with the grant community. "We have worked with the grant-making agencies in identifying who their applicant community is and asked them for mailing lists ... we look to leverage the relationships that we have," says Spitzgo. A third forum for communication is the Grants.gov daily e-mail notification of published funding opportunities. Over 500,000 people have signed up for the free e-mail. Spitzgo describes the response she received from one e-mail subscriber: "I get my e-mail and I sit down with my coffee in the morning and I go through that e-mail, and within 15 or 20 minutes, I know everything the federal government has published about grants for the last day."

The response from the grant community has been much greater than anticipated. Grants.gov receives nearly 1.5 million hits on the website each week, and 1,000 potential grantees have submitted grant applications online. Grants.gov has drawn acclaim from industry trade groups as well. Both the National Grants Management Association and the FOSE Showcase of Excellence Award was presented to Grants.gov for its impact across the government in bringing a citizen-centric approach to electronic business.

As the managing partner for Grants.gov, the Department of Health and Human Services oversaw the task of launching the e-government initiative and cultivating it into a mature, independent program. "The original emphasis was creating [e-government initiatives] and making them succeed," Spitzgo says. "The next step ... is institutionalizing these so this is the way we do business across the federal government. We don't want these initiatives to stop. We want them to become the recognized way to do business."

To learn more about government grants, go to <http://www.grants.gov>.



The Business of Government Hour's interview with Rebecca Spitzgo is available via Real Audio on the Center's website at www.businessofgovernment.org.

To read the full transcript of *The Business of Government Hour's* interview with Rebecca Spitzgo, visit the Center's website at www.businessofgovernment.org.

Endnotes

1. OMB Circular A-85 provided state and local governments with advanced notice about federal programs. Under it, state and local governments were allowed to comment upon and attempt to influence new administrative regulations for federal aid programs before they became final. OMB Circular A-95 sought to increase coordination of varied federal programs within a given region or area. For more information about its provisions and implementation, see U.S. Advisory Commission on Intergovernmental Relations, *Improving Federal Grants Management*, A-53 (ACIR, 1977).

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5. Martha Derthick, *New towns in-town; why a Federal program failed* (Urban Institute Press, 1972).

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22. See, for example, U.S. General Accounting Office, *Block Grants: Issues in Designing Accountability Provisions*, AIMD 95-226 (U.S. GAO, 1995).
23. See, for example, Paul Peterson, Barry Rabe, and Kenneth Wong, *When Federalism Works* (Brookings Institution, 1986).
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35. See Shelley H. Metzenbaum, "Strategies for Using State Information: Measuring and Improving Program Performance" (IBM Center for The Business of Government, December 2002), pp. 22–26.
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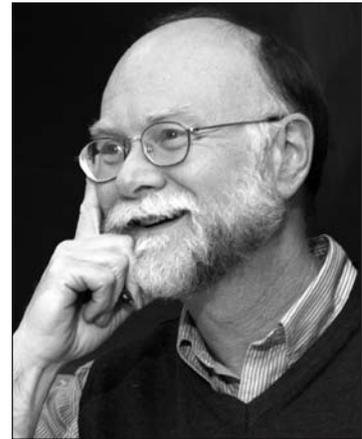
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